General Moly, Inc
Form 3
December 16, 2010

FORM 3

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Â JAMES PATRICK M
(Last) (First) (Middle)

C/O GENERAL MOLY, INC.,Â 1726 COLE BLVD., SUITE 115
(Street)

LAKEWOOD,Â COÂ 80401
(City) (State) (Zip)

2. Date of Event Requiring Statement (Month/Day/Year)
12/15/2010

3. Issuer Name **and** Ticker or Trading Symbol
General Moly, Inc [GMO]

4. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

5. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Beneficially Owned

1.Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Stock	0	D	Â

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative	5. Ownership Form of Derivative Security:	6. Nature of Indirect Beneficial Ownership (Instr. 5)

Date Exercisable	Expiration Date	Title	Amount or Number of Shares	Security	Direct (D) or Indirect (I) (Instr. 5)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
JAMES PATRICK M C/O GENERAL MOLY, INC. 1726 COLE BLVD., SUITE 115 LAKEWOOD,Â COÂ 80401	Â X	Â	Â	Â

Signatures

/s/ Jennifer A. D'Alessandro, as attorney-in-fact	12/16/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. m" width="11%" style="border-bottom: medium none;">
6,066

5,334

Additional paid-in capital

323,132

234,314

Retained earnings (deficit)

5,217

(1,443
)
Accumulated other comprehensive income - foreign currency translation

(12,847
)

(38,347
)
Accumulated other comprehensive income - pension liability

(47,174
)

(27,782
)

Total shareholders’ equity

274,394

172,076

$
928,340

$
838,990

See accompanying notes to consolidated financial statements.

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INTERFACE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FISCAL YEAR ENDED		
	2006	2005	2004
OPERATING ACTIVITIES		*(in thousands)*	
Net income (loss)	9,992	$ 1,240	$ (55,402)
Impairment of goodwill related to discontinued operations	--	--	29,044
Impairment of assets related to discontinued operations	--	3,466	17,521
Loss on discontinued operations	31	11,325	12,250
Loss from disposal of discontinued operations	--	1,935	3,027
Income from continuing operations	10,023	17,966	6,440
Adjustments to reconcile income (loss) to cash provided by (used in) operating activities			
Impairment of goodwill	20,712	--	--
Restructuring charge	2,708	--	--
Depreciation and amortization	31,163	31,455	33,336
Bad debt expense	2,694	2,009	1,421
Deferred income taxes and other	(11,997)	(6,243)	(10,832)
Working capital changes:			
Accounts receivable	(21,315)	(7,742)	600
Inventories	(24,174)	2,801	(1,876)
Prepaid expenses and other current assets	(5,953)	(2,716)	1,027
Accounts payable and accrued expenses	26,213	11,753	(1,855)
Cash provided by continuing operations	30,074	49,283	28,261
Cash provided by (used in) discontinued operations	--	12,018	(18,720)
Cash provided by operating activities	30,074	61,301	9,541
INVESTING ACTIVITIES:			
Capital expenditures	(34,036)	(25,478)	(15,783)
Proceeds from sale of discontinued operations	--	551	7,003
Proceeds from sale of European fabrics	28,837	--	--
Proceeds from sale of building	--	--	4,400
Other	(7,361)	(5,644)	(3,393)
Cash used in investing activities	(12,560)	(30,571)	(7,773)
FINANCING ACTIVITIES:			
Issuance of notes	--	--	135,000
Repurchase of senior subordinated notes	--	--	(120,000)
Debt issuance costs	(777)	--	(4,237)
Borrowings on long-term debt	--	--	--
Repurchase of senior notes	(46,634)	(2,000)	--
Proceeds from issuance of common stock	86,413	2,960	4,442
Cash provided by financing activities	39,002	960	15,205
Net cash provided by operating, investing and financing activities	56,516	31,690	16,973
Effect of exchange rate changes on cash	2,392	(2,542)	2,301
CASH AND CASH EQUIVALENTS:			

Net increase	58,908	29,148	19,274
Balance, beginning of year	51,312	22,164	2,890
Balance, end of year	$ 110,220	$ 51,312	$ 22,164

See accompanying notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company is a recognized leader in the worldwide commercial interiors market, offering modular and broadloom floorcoverings, interior fabrics and specialty products. The Company manufactures modular and broadloom carpet focusing on the high quality, designer-oriented sector of the market, and provides specialized carpet replacement, installation and maintenance services. The Company also produces interior fabrics and upholstery products. Additionally, the Company offers *Intersept*, a proprietary antimicrobial used in a number of interior finishes, and sponsors the Envirosense Consortium in its mission to address workplace environmental issues.

In 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses (as well as the results of operations of a small Australian dealer business and a small residential fabrics business). In the third quarter 2004, the Company began to dispose of several of the dealer subsidiaries. The Company has now sold or terminated ongoing operations at each of its owned dealer businesses. The results of operations and related disposal costs, gains and losses for these businesses were classified as discontinued operations for all periods presented.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions are eliminated. Investments in which the Company does not have the ability to exercise significant influence are carried at the lower of cost or estimated realizable value. The Company monitors investments for other than temporary declines in value and makes reductions in carrying values when appropriate.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Examples include provisions for returns, bad debts, product claims reserves, rebates, estimates of costs to complete performance contracts, inventory obsolescence and the length of product life cycles, accruals associated with restructuring activities, income tax exposures and valuation allowances, environmental liabilities, carrying value of goodwill and property and equipment. Actual results could vary from these estimates.

Revenue Recognition

Revenue is recognized when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, price to the buyer is fixed and determinable, and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership, which is generally on the date of shipment. Provisions for discounts, sales returns and allowances are estimated using historical experience, current economic trends, and the Company’s quality performance. The related provision is recorded as a reduction of sales and cost of goods sold in the same period that the revenue is recognized. Material differences may result in the amount and timing of net sales for any period if management makes different judgments or uses different estimates.

Revenues and estimated profits on performance contracts, which are cost-type or fixed-fee contracts to sell and install the Company’s flooring products, are recognized under the percentage of completion method of accounting using the

cost-to-cost methodology. This method is used because management considers costs incurred to be the best available measure of progress on these contracts. Estimates are made of the costs to complete a contract and revenue is recognized based on the estimated progression to completion. Profit estimates are revised periodically based upon changes in facts. Any losses identified on contracts are recognized immediately.

Shipping and handling fees billed to customers are classified in net sales in the consolidated statements of operations. Shipping and handling costs incurred are classified in cost of sales in the consolidated statements of operations.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Research and Development

Research and development costs are expensed as incurred and are included in the selling, general and administrative expense caption in the consolidated statements of operations. Research and development expense was $9.0 million, $9.6 million and $8.0 million for the years ended 2006, 2005 and 2004, respectively.

Cash, Cash Equivalents and Short-Term Investments

Highly liquid investments with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months and less than one year are classified as short-term investments.

Cash payments for interest amounted to approximately $41.9 million, $43.4 million and $42.1 million for the years ended 2006, 2005 and 2004, respectively. Income tax payments amounted to approximately $17.5 million, $14.3 million and $9.6 million for the years ended 2006, 2005 and 2004, respectively. During the years ended 2006, 2005 and 2004, the Company received income tax refunds of $2.5 million, $0.1 million and $0.6 million, respectively.

Cash flows from discontinued operations are included in operating cash flows for all years presented, as there were no significant investing or financing activities related to these discontinued operations.

Inventories

Inventories are valued at the lower of cost (standards approximating the first-in, first-out method) or market. Costs included in inventories are based on invoiced costs and/or production costs, as applicable. Included in production costs are material, direct labor and allocated overhead. The Company writes down inventories for the difference between the carrying value of the inventories and their estimated market value. If actual market conditions are less favorable than those projected by management, additional write-downs may be required.

Management estimates its reserves for inventory obsolescence by continuously examining its inventories to determine if there are indicators that carrying values exceed net realizable values. Experience has shown that significant indicators that could require the need for additional inventory write-downs are the age of the inventory, the length of its product life cycles, anticipated demand for the Company's products, and current economic conditions. While management believes that adequate write-downs for inventory obsolescence have been made in the consolidated financial statements, consumer tastes and preferences will continue to change and the Company could experience additional inventory write-downs in the future.

Rebates

The Company has agreements to receive cash consideration from certain of its vendors, including rebates and cooperative marketing reimbursements. The amounts received from its vendors are generally presumed to be a reduction of the prices the Company pays for their products and, therefore, such amounts are reflected as either a reduction of cost of sales on the accompanying consolidated statements of operations, or, if the product inventory is still on hand at the reporting date, it is reflected as a reduction of "Inventories" on the accompanying consolidated balance sheets. Vendor rebates are typically dependent upon reaching minimum purchase thresholds. The Company evaluates the likelihood of reaching purchase thresholds using past experience and current year forecasts. When

rebates can be reasonably estimated and receipt becomes probable, the Company records a portion of the rebate as the Company makes progress towards the purchase threshold.

When the Company receives direct reimbursements for costs incurred in marketing the vendor's product or service, the amount received is recorded as an offset to selling, general and administrative expenses on the accompanying consolidated statements of operations.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities of Businesses Held for Sale

The Company considers businesses to be held for sale when management approves and commits to a formal plan to actively market a business for sale and the sale is considered probable. Upon designation as held for sale, the carrying value of the assets of the business are recorded at the lower of their carrying value or their estimated fair value, less costs to sell. The Company ceases to record depreciation expense at that time.

Property and Equipment and Long-Lived Assets

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the following estimated useful lives: buildings and improvements - ten to forty years; and furniture and equipment - three to twelve years. Interest costs for the construction/development of certain long-term assets are capitalized and amortized over the related assets' estimated useful lives. The Company capitalized net interest costs of approximately $1.2 million, $0.9 million, and $0.6 million for the fiscal years ended 2006, 2005 and 2004, respectively. Depreciation expense amounted to approximately $27.1 million, $27.4 million and $27.7 million for the years ended 2006, 2005 and 2004, respectively. These amounts exclude depreciation expense of approximately $2.1 million for 2004, related to the discontinued operations of the Re:Source dealer businesses and U.S. raised/access flooring business.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flow is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. Repair and maintenance costs are charged to operating expense as incurred.

Goodwill and Other Intangible Assets

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" on December 31, 2001, goodwill was amortized on a straight-line basis over the periods benefited, principally twenty-five to forty years. Accumulated amortization amounted to approximately $77.3 million at both December 31, 2006, and January 1, 2006, and cumulative impairment losses recognized were $106.9 million as of December 31, 2006, and $86.2 million as of January 1, 2006.

In June 2001, the Financial Accounting Standards Board ("FASB") finalized SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001, and to purchase business combinations completed on or after July 1, 2001. It also requires, following the adoption of SFAS No. 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS No. 141.

The Company's previous business combinations were accounted for using the purchase method. As of December 31, 2006, and January 1, 2006, the net carrying amount of goodwill was $180.1 million and $193.7 million, respectively. Other intangible assets were $9.3 million and $6.7 million as of December 31, 2006, and January 1, 2006, respectively. Amortization expense during the years ended 2006, 2005 and 2004 was $0.7 million, $0.6 million and $0.2 million, respectively.

During the fourth quarters of 2006 and 2005, the Company performed the annual goodwill impairment test required by SFAS No. 142. In effecting the impairment testing, we used an outside consultant to help prepare valuations of reporting units in accordance with the applicable standards, and those valuations were compared with the respective book values of the reporting units to determine whether any goodwill impairment existed. In preparing the valuations, past, present and future expectations of performance were considered. No additional impairment was indicated. However, the Company recorded a goodwill impairment charge of $20.7 million in the first quarter of 2006 in connection with the sale of its European fabrics operations. In addition, an after-tax goodwill impairment charge of $29.0 million was recorded in fiscal year 2004 related to our discontinued Re:Source dealer businesses.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The changes in the carrying amounts of goodwill for the year ended December 31, 2006, by operating segment are as follows:

	BALANCE JANUARY 1, 2006	ACQUISITIONS	IMPAIRMENT	FOREIGN CURRENCY TRANSLATION	BALANCE DECEMBER 31, 2006
			(in thousands)		
Modular Carpet	$ 67,156	$ --	$ --	$ 7,114	$ 74,270
Bentley Prince Street	61,213	--	--	--	61,213
Fabrics Group	65,336	--	20,712	--	44,624
Specialty Products	--	--	--	--	--
Total	$ 193,705	$ --	$ 20,712	$ 7,114	$ 180,107

Product Warranties

The Company typically provides limited warranties with respect to certain attributes of its carpet products (for example, warranties regarding excessive surface wear, edge ravel and static electricity) for periods ranging from ten to twenty years, depending on the particular carpet product and the environment in which it is to be installed. The Company typically warrants that services performed will be free from defects in workmanship for a period of one year following completion. For fabrics products, the Company typically provides a five year limited warranty against manufacturing defects and nonconformity to specifications. In the event of a breach of warranty, the remedy typically is limited to repair of the problem or replacement of the affected product.

The Company records a provision related to warranty costs based on historical experience and periodically adjusts these provisions to reflect changes in actual experience. Warranty reserves amounted to $2.2 million and $2.6 million as of December 31, 2006, and January 1, 2006, respectively, and are included in "Accrued Expenses" in the accompanying consolidated balance sheets.

Taxes on Income

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period that includes the enactment date.

The Company records a valuation allowance to reduce its deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will expire before realization of the benefit or that future deductibility is not probable. The ultimate realization of the deferred tax assets depends on the ability to generate sufficient taxable income of the appropriate character in the future. This requires us to use estimates and make assumptions regarding significant future events such as the taxability of entities operating in the various taxing jurisdictions.

The Company does not record taxes collected from customers and remitted to governmental authorities on a gross basis.

Fair Values of Financial Instruments

Fair values of cash and cash equivalents, short-term investments and short-term debt approximate cost due to the short period of time to maturity. Fair values of debt are based on quoted market prices or pricing models using current market rates.

Translation of Foreign Currencies

The financial position and results of operations of the Company's foreign subsidiaries are measured generally using local currencies as the functional currency. Assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each year-end. Income and expense items are translated at average exchange rates for the year. The resulting translation adjustments are recorded in the foreign currency translation adjustment account. In the event of a divestiture of a foreign subsidiary, the related foreign currency translation results are reversed from equity to income. Foreign currency exchange gains and losses are included in net income (loss). Foreign exchange translation gains (losses) were $25.5 million, $(34.4) million and $23.1 million, for the years ended 2006, 2005 and 2004, respectively.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income (Loss) Per Share

Basic income (loss) per share is computed based on the average number of common shares outstanding. Diluted income (loss) per share reflects the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options, calculated using the treasury stock method.

Stock-Based Compensation

As of the fiscal year ended December 31, 2006, the Company has stock-based employee compensation plans, which are described more fully in the "Shareholders' Equity" note below. During 2006, the Company adopted SFAS No. 123R, "Share Based Payment" and has recorded expenses related to such plans in accordance with the standard. The Company transitioned to the standard using the modified prospective application. Prior to 2006, those plans were accounted for using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Compensation expenses related to stock option plans were not material for 2005 and 2004.

The following table illustrates the effect on net income and earnings per share (on a pro forma basis) if the fair value recognition provisions of SFAS No. 123 were applied to stock-based employee compensation:

	FISCAL YEAR ENDED		
	2006	2005	2004
	(in thousands, except share data)		
Net income (loss) as reported	$ 9,992	$ 1,240	$ (55,402)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	(526)	(1,499)
Add: Recognized stock-based compensation	--	--	--
Pro forma net income (loss)	$ 9,992	$ 714	$ (56,901)
Income (loss) per share:			
Basic - as reported	$ 0.18	$ 0.02	$ (1.09)
Basic - pro forma	0.18	0.01	(1.12)
Diluted - as reported	$ 0.18	$ 0.02	$ (1.06)
Diluted - pro forma	0.18	0.01	(1.09)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions used for grants issued in fiscal years 2006, 2005 and 2004:

	Fiscal Year Ended		
	2006	**2005**	**2004**
Risk free interest rate	4.71%	4.22%	4.38%
Expected option life	3.18 years	2.0 years	2.3 years
Expected volatility	60%	60%	57%

Expected dividend yield	0%	0%	0%

The weighted average fair value of stock options (as of grant date) granted during the years ended 2006, 2005 and 2004 was $5.04, $2.21 and $2.06, respectively, per share.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, effective January 1, 2001. SFAS No. 133 requires a company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a fair value hedge, changes in the fair value of the hedged assets, liabilities or firm commitments are recognized through earnings. If the derivative is a cash flow hedge, the effective portion of changes in the fair value of the derivative are recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year financial statement presentation.

Fiscal Year

The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest December 31. All references herein to "2006" "2005," and "2004," mean the fiscal years ended December 31, 2006, January 1, 2006, and January 2, 2005, respectively. Fiscal years 2006, 2005 and 2004 comprised 52, 52, and 53 weeks, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." This standard permits an entity to choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 also revises provisions of SFAS No. 115 that apply to available-for-sale and trading securities. This statement is effective for fiscal years beginning after November 15, 2007. The Company is current evaluating the effect, if any, that the adoption of this pronouncement will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires an employer to recognize a plan's funded status in its statement of financial position, measure a plan's assets and obligations as of the end of the employer's fiscal year, and recognize the changes in a defined benefit post-retirement plan's funded status in comprehensive income in the year in which the changes occur. SFAS No. 158's requirement to recognize the funded status of a benefit plan and new disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006 (the 2006 fiscal year-end for the Company) on a prospective basis. As a result of the requirement to recognize the unfunded status of the plan as a liability, the Company recorded a charge to other comprehensive income of $19.3 million in the fourth quarter of 2006. See further discussion below at the note entitled "Employee Benefit Plans."

In September 2006, the Securities & Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108. SAB No. 108 provides additional guidance on determining the materiality of cumulative unadjusted misstatements in both current and future financial statements. SAB No. 108 also provides guidance on the proper accounting and reporting for the correction of immaterial unadjusted misstatements which may become material in subsequent accounting periods. SAB No. 108 generally requires prior period financial statements to be revised if prior misstatements are subsequently discovered; however, for immaterial prior year revisions, reports filed under the Securities Exchange Act

of 1934 are not required to be amended. SAB No. 108 became effective as of December 31, 2006. The Company applied the guidance provided in SAB No. 108 in the fourth quarter of 2006, and identified three matters in prior reporting periods which were deemed immaterial to those periods using a consistent evaluation methodology (the “rollover method”). They were as follows:

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- In 1998, the Company entered into a sale-leaseback transaction in which a gain was recognized at the time of sale as opposed to over the lease period. In addition, the Company did not use straight-line rental accounting for the expected lease payments related to this transaction. To correct these entries, the Company recorded an entry to increase liabilities by approximately $3.3 million and decrease retained earnings by approximately $2.1 million, net of tax;
- The Company's previous methodology for recording legal expenses ensured that the Company incurred twelve months of expense in each year. However, the actual timing and amount of the legal bills received led to an understated liability on the balance sheet. The Company has recorded a liability of approximately $1.2 million and a decrease in retained earnings of approximately $0.5 million, net of taxes (as the remaining portion of these costs were capitalizable), to properly record incurred legal expenses; and
- The Company previously under-recorded the liability related to restricted stock by approximately $0.7 million. There was no impact to consolidated shareholders' equity as a result of this correction, as the liability for restricted stock is recorded in equity.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating the effect, if any, that the adoption of this pronouncement will have on its consolidated financial statements.

On September 7, 2006, the Emerging Issues Task Force ("EITF") of the FASB reached consensus on EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4"). The scope of EITF 06-4 is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. EITF 06-4 is effective for fiscal years beginning after December 15, 2007, and the Company is currently evaluating the effect of this standard on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes". In summary, FIN No. 48 requires that all tax positions subject to SFAS No. 109, "Accounting for Income Taxes", be analyzed using a two-step approach. The first step requires an entity to determine if a tax position is more-likely-than-not to be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more-likely-than-not to be realized upon ultimate settlement. FIN No. 48 is effective for fiscal years beginning after December 15, 2006, with any adjustment in a company's tax provision being accounted for as a cumulative effect of accounting change in beginning equity. The Company is in the process of determining the effect, if any, the adoption of FIN No. 48 will have on its consolidated financial statements.

In June 2006, the EITF reached a consensus on Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)"("EITF 06-03"). EITF 06-03 concludes that (a) the scope of this issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, and (b) the presentation of taxes within the scope on either a gross or a net basis is an accounting policy decision that should be disclosed pursuant to Opinion 22. Furthermore, EITF 06-03 states that for taxes reported on a gross basis, a

company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. EITF is effective for periods beginning after December 15, 2006. This standard is not expected to have a material impact on our results of operations or financial position.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3". SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted SFAS No. 154 on January 2, 2006. The adoption of SFAS No. 154 did not have a material impact on our consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4." SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We adopted SFAS No. 151 on January 2, 2006. The adoption of SFAS No. 151 did not have a material effect on our results of operation or financial position.

In October 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which requires companies to measure compensation cost for all share-based payments, including employee stock options. SFAS No. 123R was effective as of the first fiscal year beginning after June 15, 2005. In March 2005, the SEC issued SAB No. 107 regarding the SEC's interpretation of SFAS No. 123R and the valuation of share-based payments for public companies. The Company adopted SFAS No. 123R on January 2, 2006. For further information, see the note below entitled "Shareholders' Equity."

RECEIVABLES

The Company has adopted credit policies and standards intended to reduce the inherent risk associated with potential increases in its concentration of credit risk due to increasing trade receivables from sales to owners and users of commercial office facilities and with specifiers such as architects, engineers and contracting firms. Management believes that credit risks are further moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of December 31, 2006, and January 1, 2006, the allowance for bad debts amounted to approximately $7.4 million and $6.2 million, respectively, for all accounts receivable of the Company. Reserves for sales returns and allowances amounted to $2.2 million and $2.7 million as of December 31, 2006, and January 1, 2006, respectively.

Balances billed but not paid by customers under retainage provisions in the Company's performance contracts related to the discontinued operations of the Re:Source dealer businesses amounted to $0.1 million and $0.6 million as of the years ended December 31, 2006, and January 1, 2006, respectively, and generally are paid within one year. Amounts representing the recognized sales value of performance contracts, which were not billed or billable, were $2.0 million and $2.0 million as of December 31, 2006, and January 1, 2006, respectively. These amounts exclude sales value of $0.1 million and $0.7 million as of December 31, 2006, and January 1, 2006, respectively, related to the discontinued operations of the Re:Source dealer businesses. Billings are made periodically, usually weekly or monthly, and are based on terms defined in the contracts that govern the related arrangement, and are usually determined based on the extent of progress of the related job.

INVENTORIES

Inventories are summarized as follows:

	2006	2005
	(in thousands)	
Finished goods	$ 86,123	$ 71,893
Work-in-process	16,740	16,792
Raw materials	45,100	41,524
	$ 147,963	$ 130,209

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reserves for inventory obsolescence amounted to $11.9 million and $12.0 million as of December 31, 2006, and January 1, 2006, respectively, and have been netted against amounts presented above.

PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2006	2005
	(in thousands)	
Land	$ 11,065	$ 7,111
Buildings	131,993	117,810
Equipment	397,467	403,269
	540,525	528,190
Accumulated depreciation	(351,800)	(342,547)
	$ 188,725	$ 185,643

The estimated cost to complete construction-in-progress for which the Company was committed at December 31, 2006, was approximately $15.9 million.

ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	2006	2005
	(in thousands)	
Compensation	$ 47,345	$ 34,864
Interest	15,438	16,732
Restructuring	267	271
Taxes	9,339	13,356
Accrued purchases	9,188	7,127
Other	19,916	13,231
	$ 101,493	$ 85,581

Other non-current liabilities include pension liability of $50.7 million and $27.8 million as of December 31, 2006, and January 1, 2006, respectively (see the discussion below in the note entitled "Employee Benefit Plans").

BORROWINGS

Revolving Credit Facility

On June 18, 2003, the Company amended and restated its revolving credit facility. Under the amended and restated facility at that time, the maximum aggregate amount of loans and letters of credit available at any one time was $100

million. Key features of the revolving credit facility at that time included the following:

- The amended and restated facility included a domestic U.S. dollar syndicated loan and letter of credit facility (the "Domestic Loan Facility") made available to the Company and Interface Europe B.V. (a foreign subsidiary of the Company based in the Netherlands), as co-borrowers up to the lesser of (i) $100 million, or (ii) a borrowing base equal to the sum of specified percentages of eligible accounts receivable, finished goods inventory and raw materials inventory in the United States, less certain reserves;

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Advances to the Company and Interface Europe B.V. under the Domestic Loan Facility and advances to Interface Europe, Ltd. (a foreign subsidiary of the Company based in the UK) under the Multicurrency Loan Facility (described below) were secured by a first-priority lien on substantially all of the assets of the Company and each of its material domestic subsidiaries, which guaranteed the amended and restated facility;

- The amended and restated facility also included a multicurrency syndicated loan and letter of credit facility (the “Multicurrency Loan Facility”) in British pounds and euros made available to Interface Europe, Ltd., in an amount up to the lesser of (i) the equivalent of $15 million, or (ii) a borrowing base equal to the sum of specified percentages of eligible accounts receivable and finished goods inventory of Interface Europe, Ltd. and certain of its subsidiaries, less certain reserves;

- Advances to Interface Europe, Ltd. under the Multicurrency Loan Facility were secured by a first-priority lien on, security interest in, or floating or fixed charge, as applicable, on all of the interest in and to the accounts receivable, inventory, and substantially all other property of Interface Europe, Ltd. and its material subsidiaries, which subsidiaries also guaranteed the Multicurrency Loan Facility;

- The amended and restated facility contained certain financial covenants (including a senior secured debt coverage ratio test and a fixed charge coverage ratio test) that become effective in the event that the Company’s excess availability for domestic loans fell below $20 million (excluding a specified reserve against the domestic borrowing base); and

- Interest on borrowings and letters of credit under the amended and restated facility was charged at varying rates computed by applying a margin (ranging from 0.0% to 3.5%) over a baseline rate (such as the prime interest rate or LIBOR), depending on the type of borrowing and our fixed charge coverage ratio. In addition, the Company was required to pay an unused line fee on the facility ranging from 0.375% to 1.0% depending on our fixed charge coverage ratio.

Compared with its predecessor, the June 2003 amendment and restatement, among other things, eased the applicability of financial covenants, secured advances to Interface Europe, Ltd., reduced the size of the Multicurrency Loan Facility, substituted certain lenders, and increased pricing on borrowings in certain circumstances. Prior to the amendment and restatement of its revolving credit facility in June 2003, the Company was not in compliance with certain covenants contained in its previous facility, and the Company obtained waivers from its lenders at that time.

On March 30, 2004, the Company further amended the amended and restated facility. The amendment provided that, for purposes of calculating a specified fixed charge coverage ratio, any interest payments on the Company’s 7.3% senior notes that were due and payable on April 1 or October 1 of a given fiscal year shall, when paid, be deemed to have been paid in the second fiscal quarter and the fourth fiscal quarter, respectively, of such fiscal year.

On December 29, 2004, the Company again amended the amended and restated facility. The December 2004 amendment, among other things, decreased fees and pricing on borrowings in certain circumstances, increased the domestic letters of credit subcommitment for a specified time period, increased the dollar amount threshold for a money judgment that may constitute an event of default, and waived various pledge and security requirements otherwise applicable to certain assets of the Company’s subsidiaries.

On September 30, 2005, the Company again amended the amended and restated facility to allow certain foreign subsidiaries to incur a limited amount of indebtedness and liens against property without using the general “catch-all” baskets contained in such covenants.

On February 21, 2006, the Company again amended the amended and restated facility. This amendment modified the definition of “Financial Covenant Effective Date” to remove language that caused certain financial covenants to become effective in the event excess availability for U.K. loans fell below $3 million.

On June 30, 2006, the Company again amended and restated its revolving credit facility. Under the amended and restated facility (the “Facility”), as under its predecessor, the Company’s obligations are secured by a first priority lien on substantially all of the assets of Interface, Inc. and each of its material domestic subsidiaries, which subsidiaries also guarantee the Facility. However, the Facility differs from its predecessor in the following material respects:

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- The stated maturity date of the Facility has been extended to June 30, 2011;
- The borrowing base governing borrowing availability has been modified to include certain eligible equipment and (at our option) real estate, to change certain existing advance rates and types of eligible inventory and to change certain reserve requirements relating to borrowing availability (in each case subject to certain terms and conditions specified therein);
- The maximum aggregate amount of loans and letters of credit available to us at any one time has been increased to $125 million, with an option for us to further increase that amount to up to a maximum of $150 million subject to the satisfaction of certain conditions;
- The applicable interest rates and unused line fees have been reduced. Interest is now charged at varying rates computed by applying a margin (ranging from 0.0% to 0.25%, in the case of advances at a prime interest rate, and 1.25% to 2.25%, in the case of advances at LIBOR) over a baseline rate (such as the prime interest rate or LIBOR), depending on the type of borrowing and our average excess borrowing availability during the most recently completed fiscal quarter. The unused line fee ranges from 0.25% to 0.375%, depending on our average excess borrowing availability during the most recently completed fiscal quarter;
- The negative covenants have been relaxed in several respects, including with respect to the repayment of our other indebtedness and the payment of dividends and limiting their application to Interface, Inc. and its domestic subsidiaries. Additionally, the financial covenants have been amended to delete the senior secured debt coverage ratio and to modify the terms of the sole remaining financial covenant, a fixed charge coverage test;
- The events of default have been amended to limit their application primarily to Interface, Inc. and its domestic subsidiaries and to make certain of the events of default less restrictive by increasing the applicable dollar thresholds thereunder; and
- The previously-existing multicurrency loan and letter of credit facility available to our foreign subsidiary based in the United Kingdom, as well as the liens on assets in the United Kingdom securing that facility, have been removed from the Facility.

The Facility also includes various reporting, affirmative and negative covenants, and other provisions that restrict our ability to take certain actions, including provisions that restrict our ability to: (1) repay our long-term indebtedness unless we meet a specified minimum excess availability test; (2) incur indebtedness of contingent obligations; (3) make acquisitions of or investments in businesses (in excess of certain specified amounts); (4) sell or dispose of assets (in excess of certain specified amounts); (5) create or incur liens on assets; and (6) enter into sale and leaseback transactions.

We are presently in compliance with all covenants under the Facility and anticipate that we will remain in compliance with the covenants for the foreseeable future.

As under its predecessor, the Facility is secured by substantially all of the assets of Interface, Inc. and its domestic subsidiaries (subject to exceptions for certain immaterial subsidiaries), including all of the stock of our domestic subsidiaries and up to 65% of the stock of our first-tier material foreign subsidiaries. If an event of default occurs under the Facility, the lenders' collateral agent may, upon the request of a specified percentage of lenders, exercise

remedies with respect to the collateral, including, in some instances, foreclosing mortgages on real estate assets, taking possession of or selling personal property assets, collecting accounts receivables, or exercising proxies to take control of the pledged stock of domestic and first-tier material foreign subsidiaries.

As of December 31, 2006, and January 1, 2006, the Company had no borrowings outstanding under the domestic portion of the revolving credit facility. At January 1, 2006, the Company had $5.1 million outstanding borrowings under its Multicurrency Loan Facility, which was reported in current liabilities in the accompanying consolidated financial statements. The amended and restated Facility has no Multicurrency Loan Facility, and therefore no multicurrency borrowings were outstanding as of December 31, 2006. At December 31, 2006, the Company had $9.5 million outstanding in letters of credit. As of December 31, 2006, the Company could have incurred $98.5 million of additional borrowings under the Facility.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9.5% Senior Subordinated Notes

On February 4, 2004, the Company completed a private offering of $135 million in 9.5% Senior Subordinated Notes due 2014. Interest on these Notes is payable semi-annually on February 1 and August 1 beginning August 1, 2004. Proceeds from the issuance of these Notes were used to redeem in full the Company's previously outstanding 9.5% Senior Subordinated Notes due 2005 and to reduce borrowings under the Company's revolving credit facility.

These notes are guaranteed, fully, unconditionally, and jointly and severally, on an unsecured senior subordinated basis by certain of the Company's domestic subsidiaries. The notes will become redeemable for cash after February 1, 2009 at the Company's option, in whole or in part, initially at a redemption price equal to 104.75% of the principal amount, declining to 100% of the principal amount on February 1, 2012, plus accrued interest thereon to the date fixed for redemption. As of both December 31, 2006, and January 1, 2006, the Company had outstanding $135 million of 9.5% Senior Subordinated Notes due 2014. At December 31, 2006, and January 1, 2006, the estimated fair value these notes, based on then current market prices, was approximately $141.8 million and $133.7 million, respectively.

10.375% Senior Notes

On January 17, 2002, the Company completed a private offering of $175 million in 10.375% Senior Notes due 2010. Interest is payable semi-annually on February 1 and August 1 beginning August 1, 2002. Proceeds from the issuance of these Notes were used to pay down the revolving credit facility.

The notes are guaranteed, fully, unconditionally, and jointly and severally, on an unsecured senior basis by certain of the Company's domestic subsidiaries. As of both December 31, 2006, and January 1, 2006, the Company had outstanding $175 million in 10.375% Senior Notes. At December 31, 2006, and January 1, 2006, the estimated fair value of these notes based on then current market prices was approximately $193.4 million and $189.0 million, respectively.

7.3% Senior Notes

As of December 31, 2006, and January 1, 2006, the Company had outstanding $101 million and $148 million in 7.3% Senior Notes due 2008, respectively. Interest is payable semi-annually on April 1 and October 1 beginning on October 1, 1998.

The notes are unsecured and are guaranteed, fully, unconditionally, and jointly and severally, by certain of the Company's domestic subsidiaries. The notes are redeemable, in whole or in part, at the option of the Company, at any time or from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes to be redeemed or (ii) the sum of the present value of the remaining scheduled payments, discounted on a semi-annual basis at the treasury rate plus 50 basis points, plus, in the case of each of (i) and (ii) above, accrued interest to the date of redemption. At December 31, 2006, and January 1, 2006, the estimated fair value of these notes based on then current market prices was approximately $103.1 million and $151.5 million, respectively.

Lines of Credit

Subsidiaries of the Company have an aggregate of $10.0 million of lines of credit available at interest rates ranging from 1.0% to 9.6%. As of December 31, 2006, and January 1, 2006, $0.0 million and $1.5 million, respectively, was outstanding under the lines of credit.

Borrowing Costs

Borrowing costs, which include underwriting, legal and other direct costs related to the issuance of debt, were $6.7 million and $7.7 million as of December 31, 2006, and January 1, 2006, respectively. The Company amortizes these costs over the life of the related debt. Expenses related to such costs for the years ended 2006, 2005 and 2004 amounted to $1.9 million, $2.3 million and $3.6 million, respectively.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future Maturities

The aggregate maturities of borrowings for each of the five years subsequent to December 31, 2006, are as follows:

FISCAL YEAR	AMOUNT *(in thousands)*
2007	$ --
2008	101,365
2009	--
2010	175,000
2011	--
Thereafter	135,000
	$ 411,365

PREFERRED STOCK

The Company is authorized to designate and issue up to 5,000,000 shares of $1.00 par value preferred stock in one or more series and to determine the rights and preferences of each series, to the extent permitted by the Articles of Incorporation, and to fix the terms of such preferred stock without any vote or action by the shareholders. The issuance of any series of preferred stock may have an adverse effect on the rights of holders of common stock and could decrease the amount of earnings and assets available for distribution to holders of common stock. As of December 31, 2006, and January 1, 2006, there were no shares of preferred stock issued.

In addition, any issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of the Company.

Preferred Share Purchase Rights

The Company has previously issued one purchase right (a “Right”) in respect of each outstanding share of Common Stock. Each Right entitles the registered holder of the Common Stock to purchase from the Company one two-hundredth of a share (a “Unit”) of Series B Participating Cumulative Preferred Stock (the “Series B Preferred Stock”).

The Rights may have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that acquires (without the consent of the Company’s Board of Directors) more than 15% of the outstanding shares of Common Stock or if other specified events occur without the Rights having been redeemed or in the event of an exchange of the Rights for Common Stock as permitted under the Shareholder Rights Plan.

The dividend and liquidation rights of the Series B Preferred Stock are designed so that the value of one one-hundredth of a share of Series B Preferred Stock issuable upon exercise of each Right will approximate the same economic value as one share of Common Stock, including voting rights. The exercise price per Right is $90, subject to adjustment. Shares of Series B Preferred Stock will entitle the holder to a minimum preferential dividend of $1.00 per share, but will entitle the holder to an aggregate dividend payment of 200 times the dividend declared on each share of Common Stock. In the event of liquidation, each share of Series B Preferred Stock will be entitled to a minimum preferential liquidation payment of $1.00, plus accrued and unpaid dividends and distributions thereon, but will be entitled to an aggregate payment of 200 times the payment made per share of Common Stock. In the event of any

merger, consolidation or other transaction in which Common Stock is exchanged for or changed into other stock or securities, cash or other property, each share of Series B Preferred Stock will be entitled to receive 200 times the amount received per share of Common Stock. Series B Preferred Stock is not convertible into Common Stock.

Each share of Series B Preferred Stock will be entitled to 200 votes on all matters submitted to a vote of the shareholders of the Company, and shares of Series B Preferred Stock will generally vote together as one class with the Common Stock and any other voting capital stock of the Company on all matters submitted to a vote of the Company's shareholders. While the Company's Class B Common Stock remains outstanding, holders of Series B Preferred Stock will vote as a single class with the Class A Common Stockholders for election of directors.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Further, whenever dividends on the Series B Preferred Stock are in arrears in an amount equal to six quarterly payments, the Series B Preferred Stock, together with any other shares of preferred stock then entitled to elect directors, shall have the right, as a single class, to elect one director until the default has been cured. The Rights expire on March 15, 2008, unless extended or unless the Rights are earlier redeemed or exchanged by the Company.

SHAREHOLDERS' EQUITY

The Company is authorized to issue 80 million shares of $0.10 par value Class A Common Stock and 40 million shares of $0.10 par value Class B Common Stock. Class A and Class B Common Stock have identical voting rights except for the election or removal of directors. Holders of Class B Common Stock are entitled as a class to elect a majority of the Board of Directors. Under the terms of the Class B Common Stock, its special voting rights to elect a majority of the Board members would terminate irrevocably if the total outstanding shares of Class B Common Stock ever comprises less than ten percent of the Company's total issued and outstanding shares of Class A and Class B Common Stock. On December 31, 2006, the outstanding Class B shares constituted approximately 11.1% of the total outstanding shares of Class A and Class B Common Stock. The Company's Class A Common Stock is traded in the over-the-counter market under the symbol IFSIA and is quoted on Nasdaq. The Company's Class B Common Stock is not publicly traded. Class B Common Stock is convertible into Class A Common Stock on a one-for-one basis. Both classes of Common Stock share in dividends available to common shareholders. There were no dividends paid in 2006, 2005 and 2004. However, the Company's Board of Directors recently declared a regular quarterly cash dividend of $0.02 per share payable March 23, 2007 to shareholders of record as of March 9, 2007. The future declaration and payment of dividends is at the discretion of the Company's Board, and depends upon, among other things, the Company's investment policy and opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant by its Board at the time of the Board's determination. Such other factors include limitations contained in the agreement for its primary revolving credit facility and in the indentures for our public indebtedness, each of which specify conditions as to when any dividend payments may be made. As such, the Company may discontinue its dividend payments in the future if its Board determines that a cessation of dividend payments is proper in light of the factors indicated above.

All treasury stock is accounted for using the cost method.

Common Stock Offering

On November 10, 2006, we sold 5,750,000 shares of our Class A common stock (which amount includes the underwriters' exercise in full of their option to purchase an additional 750,000 shares to cover over-allotments) at a public offering price of $14.65 per share pursuant to a common stock offering, resulting in net proceeds of approximately $78.9 million after deducting the underwriting discounts, commissions and estimated offering expenses. We plan to use the net proceeds to repay some of our outstanding debt and may use a portion of such proceeds for general corporate purposes.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables show changes in common shareholders' equity.

	CLASS A SHARES	CLASS A AMOUNTS	CLASS B SHARES	CLASS B AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	MINIMUM PENSION LIABILITY	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
					(in thousands)			
Balance, at December 28, 2003	44,060	$ 4,406	7,291	$ 729	$ 222,984	$ 52,719	$ (35,057)	$ (27,048)
Net loss	--	--	--	--	--	(55,402)	--	--
Conversion of common stock	588	58	(588)	(58)	--	--	--	--
Stock issuances under employee plans	862	86	--	--	4,356	--	--	--
Other issuances of common stock	--	--	207	22	1,123	--	--	--
Unamortized stock compensation expense related to restricted stock awards	--	--	--	--	(1,144)	--	--	--
Forfeitures and compensation expense related to restricted stock awards	--	--	--	--	1,426	--	--	--
Tax benefit from exercise of stock options	--	--	--	--	487	--	--	--
Tax benefit from vesting of restricted stock	--	--	--	--	150	--	--	--
Minimum pension liability adjustment	--	--	--	--	--	--	1,289	--
Foreign currency translation adjustment	--	--	--	--	--	--	--	23,052
Balance, at January 2, 2005	45,510	$ 4,550	6,910	$ 693	$ 229,382	$ (2,683)	$ (33,768)	$ (3,996)

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	CLASS A SHARES	CLASS A AMOUNTS	CLASS B SHARES	CLASS B AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	MINIMUM PENSION LIABILITY	FOREIGN CURRENCY TRANSLATION ADJUSTMENT
Balance, at January 2, 2005	45,510	$ 4,550	6,910	$ 693	$ 229,382	$ (2,683)	$ (33,768)	$ (3,996)
Net income (loss)	--	--	--	--	--	1,240	--	--
Conversion of common stock	280	28	(280)	(28)	--	--	--	--
Stock issuances under employee plans	541	53	--	--	2,903	--	--	--
Other issuances of common stock	--	--	386	38	3,078	--	--	--
Unamortized stock compensation expense related to restricted stock awards	--	--	--	--	(3,114)	--	--	--
Forfeitures and compensation expense related to restricted stock awards	--	--	--	--	1,747	--	--	--
Tax benefit from exercise of stock options	--	--	--	--	304	--	--	--
Tax benefit from vesting of restricted stock	--	--	--	--	14	--	--	--
Minimum pension liability adjustment	--	--	--	--	--	--	5,986	--
Foreign currency translation adjustment	--	--	--	--	--	--	--	(34,351)
Balance, at January 1, 2006	46,331	$ 4,631	7,016	$ 703	$ 234,314	$ (1,443)	$ (27,782)	$ (38,347)

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	CLASS A SHARES		CLASS A AMOUNT	CLASS B SHARES		CLASS B AMOUNT		ADDITIONAL PAID-IN CAPITAL		RETAINED EARNINGS (DEFICIT)		PENSION LIABILITY		FOREIGN CURRENCY TRANSLATION ADJUSTMENT
Balance, at January 1, 2006	46,331	$	4,631	7,016	$	703	$	234,314	$	(1,443)	$	(27,782)	$	(38,347)
Net income (loss)	--		--	--		--		--		9,992		--		--
SAB 108 adjustments	--		--	--		--		701		(3,332)		--		--
Conversion of common stock	662		66	(662)		(66)		--		--		--		--
Stock issuances under employee plans	1,189		119	--		--		6,087		--		--		--
Other issuances of common stock	--		--	385		38		3,367		--		--		--
Unamortized stock compensation expense related to restricted stock awards	--		--	--		--		(3,406)		--		--		--
Equity offering	5,750		575	--		--		78,771		--		--		--
Forfeitures and compensation expense related to restricted stock awards	--		--	--		--		3,298		--		--		--
Pension liability adjustment	--		--	--		--		--		--		(19,392)		--
Foreign currency translation adjustment	--		--	--		--		--		--		--		25,500
Balance, at December 31, 2006	53,932	$	5,391	6,739	$	675	$	323,132	$	5,217	$	(47,174)	$	(12,847)

Stock Options

The Company has an Omnibus Stock Incentive Plan ("Omnibus Plan") under which a committee of independent directors is authorized to grant directors and key employees, including officers, options to purchase the Company's Common Stock. Options are exercisable for shares of Class A or Class B Common Stock at a price not less than 100% of the fair market value on the date of grant. The options become exercisable either immediately upon the grant date or ratably over a time period ranging from one to five years from the date of the grant. The Company's options expire at the end of time periods ranging from three to ten years from the date of the grant. Initially, an aggregate of 3,600,000 shares of Common Stock not previously authorized for issuance under any plan, plus the number of shares subject to outstanding stock options granted under certain predecessor plans minus the number of shares issued on or after the effective date pursuant to the exercise of such outstanding stock options granted under predecessor plans, were available to be issued under the Omnibus Plan. In May 2001, the shareholders approved an amendment to the Omnibus Plan which increased by 2,000,000 the number of shares of Common Stock authorized for issuance under

the Omnibus Plan. In May 2006, the shareholders approved an amendment to the Omnibus Plan. The amendment extended the term of the Omnibus Plan until February 2016, and increased the number of shares reserved for issuance or transfer to 4,250,000.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the first quarter of 2006, the Company adopted SFAS No. 123R, "Share-Based Payments," which revises SFAS No. 123, "Accounting for Stock-Based Compensation." This standard requires that the Company measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair market value of the award. That cost will be recognized over the period in which the employee is required to provide the services - the requisite service period (usually the vesting period) - in exchange for the award. The grant date fair value for options and similar instruments will be estimated using option pricing models. Under SFAS No. 123R, the Company is required to select a valuation technique or option pricing model that meets the criteria as stated in the standard, which includes a binomial model and the Black-Scholes model. The Company is continuing to use the Black-Scholes model. SFAS No. 123R requires that the Company estimate forfeitures for stock options and reduce compensation expense accordingly. The Company has reduced its 2006 expense by the assumed forfeiture rate and will evaluate actual experience against the assumed forfeiture rate going forward.

The Company recognized stock option compensation expense of $0.3 million in 2006. There was no recognized expense related to stock options in 2005 or 2004. The remaining unrecognized compensation cost related to unvested awards at December 31, 2006 approximated $0.5 million, and the weighted average period of time over which this cost will be recognized is approximately two years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, with the following weighted average assumptions used for grants issued in fiscal years 2006, 2005 and 2004:

	Fiscal Year Ended		
	2006	**2005**	**2004**
Risk free interest rate	4.71%	4.22%	4.38%
Expected option life	3.18 years	2.0 years	2.3 years
Expected volatility	60%	60%	57%
Expected dividend yield	0%	0%	0%

The weighted average fair value of stock options (as of grant date) granted during the years ended 2006, 2005 and 2004 was $5.04, $2.21 and $2.06, respectively, per share.

The following table summarizes stock options outstanding as of December 31, 2006, as well as activity during the previous fiscal year:

	Shares	**Weighted Average Exercise Price**
Outstanding at January 1, 2006	2,925,000	$ 5.81
Granted	110,000	11.12
Exercised	1,230,000	5.99
Forfeited or cancelled	46,000	3.55
Outstanding at December 31, 2006 (a)	1,759,000	$ 6.07
Exercisable at December 31, 2006 (b)	1,467,000	$ 6.00

(a) At December 31, 2006, the weighted-average remaining contractual life of options outstanding was 3.8 years.
(b) At December 31, 2006, the weighted-average remaining contractual life of options exercisable was 3.5 years.

At December 31, 2006, the aggregate intrinsic values of options outstanding and options exercisable were $14.3 million and $12.2 million, respectively (the intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option).

The intrinsic value of stock options exercised in 2006, 2005 and 2004 was $7.9 million, $2.0 million and $3.1 million, respectively. The cash proceeds related to stock options exercised in 2006, 2005 and 2004 were $7.1 million, $3.0 million and $4.4 million, respectively.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price	Number Exercisable at December 31, 2006		Weighted Average Exercise Price
$ 2.64- 3.77	253,000	5.63	$	2.91	131,000	$	3.05
4.00- 5.99	820,000	3.55		4.98	752,000		4.93
6.00- 8.88	476,000	3.75		7.63	439,000		7.55
9.00-13.98	210,000	2.26		10.51	145,000		9.47
	1,759,000	3.80	$	6.07	1,467,000	$	6.00

Restricted Stock Awards

During fiscal years 2006, 2005 and 2004, the Company granted restricted stock awards totaling 394,000, 386,000, and 207,000 shares, respectively, of Class B common stock. These awards (or a portion thereof) vest with respect to each recipient over a three to five year period from the date of grant, provided the individual remains in the employment or service of the Company as of the vesting date. Additionally, these shares (or a portion thereof) could vest earlier upon the attainment of certain performance criteria, in the event of a change in control of the Company, or upon involuntary termination without cause.

Compensation expense related to the vesting of restricted stock was $2.9 million, $1.7 million and $1.4 million for 2006, 2005 and 2004, respectively. SFAS No. 123R requires that the Company estimate forfeitures for restricted stock and reduce compensation expense accordingly. The Company has reduced its 2006 expense by the assumed forfeiture rate and will evaluate actual experience against the assumed forfeiture rate going forward.

The following table summarizes restricted stock activity as of December 31, 2006, and during the previous fiscal year:

	Shares		**Weighted Average Grant Date Fair Value**
Outstanding at January 1, 2006	1,471,000	$	7.68
Granted	394,000		8.64
Vested	545,000		7.60
Forfeited or cancelled	9,000		7.76
Outstanding at December 31, 2006	1,311,000	$	8.00

As of December 31, 2006, the unrecognized total compensation cost related to unvested restricted stock was $5.0 million. That cost is expected to be recognized by the end of 2010.

As stated above, SFAS No. 123R requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation, as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur. In prior years, the Company did not estimate the forfeitures of its restricted stock as the expense was recorded. In accordance with the standard, the Company is required to record a cumulative effect of the

change in accounting principle to reduce previously recognized compensation for awards not expected to vest (i.e., forfeited or cancelled awards). Upon adoption of SFAS No. 123R, the Company adjusted for this cumulative effect and recognized a reduction in stock-based compensation, which was recorded within the selling, general and administrative expense on the Company's consolidated condensed statement of operations. The adjustment was not recorded as a cumulative effect adjustment, net of tax, because the amount was not material to the consolidated condensed statement of operations.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

INCOME (LOSS) PER SHARE

Basic income (loss) per share is computed by dividing net income (loss) to common shareholders by the weighted average number of shares of Class A and Class B Common Stock outstanding during each year. Shares issued or reacquired during the year have been weighted for the portion of the year that they were outstanding. Diluted income (loss) per share is calculated in a manner consistent with that of basic income (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the year.

Basic income (loss) per share has been computed based upon 54,087,000, 51,551,000 and 50,682,000 weighted average shares outstanding for the years 2006, 2005 and 2004, respectively. Diluted income (loss) per share has been computed based upon 55,713,000, 52,895,000 and 52,171,000 shares outstanding for the years 2006, 2005 and 2004, respectively.

	FISCAL YEAR ENDED		
	2006	2005	2004
	(in thousands, except per share data)		
Basic and diluted income (loss) available to shareholders (numerator):			
Income (loss) from continuing operations	$ 10,023	$ 17,966	$ 6,440
Loss from discontinued operations	(31)	(14,791)	(58,815)
Loss on disposal of discontinued operations	--	(1,935)	(3,027)
Net income (loss)	$ 9,992	$ 1,240	$ (55,402)
Shares (denominator):			
Weighted average shares outstanding	54,087	51,551	50,682
Dilutive securities:			
Options and awards	1,626	1,344	1,489
Total assuming conversion	55,713	52,895	52,171
Income (loss) per share - basic:			
Income (loss) from continuing operations	$ 0.18	$ 0.35	$ 0.13
Loss from discontinued operations	--	(0.29)	(1.16)
Loss on sale of discontinued operations	--	(0.04)	(0.06)
Net income (loss)	$ 0.18	$ 0.02	$ (1.09)
Income (loss) per share - diluted:			
Income (loss) from continuing operations	$ 0.18	$ 0.34	$ 0.12
Loss from discontinued operations	--	(0.28)	(1.12)
Loss on sale of discontinued operations	--	(0.04)	(0.06)
Net income (loss)	$ 0.18	$ 0.02	$ (1.06)

RESTRUCTURING CHARGE

During the first quarter of 2006, the Company recorded a pre-tax restructuring charge of $3.3 million. The charge reflected: (i) the closure of a fabrics manufacturing facility in East Douglas, Massachusetts, and consolidation of those operations into the Company's Elkin, North Carolina facility; (ii) workforce reduction at this facility; and (iii) a reduction in carrying value of another fabrics facility and other assets. These activities are expected to reduce excess capacity in the Company's dyeing and finishing operations and improve overall manufacturing efficiency.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the restructuring activities is presented below:

	Total Restructuring Charge	Costs Incurred (in thousands)	Balance at December 31, 2006
Facilities consolidation	$ 1,000	$ 818	$ 182
Workforce reduction	300	215	85
Other impaired assets	1,960	1,960	--
	$ 3,260	$ 2,993	$ 267

Of the total restructuring charge, approximately $0.3 million relates to expenditures for severance benefits and other similar costs, and $3.0 million relates to non-cash charges, primarily for the write-down of carrying value and disposal of certain assets. The total amounts incurred to date for this restructuring plan are $3.3 million, and there are not expected to be any further expenses related to this plan. The plan was substantially completed by the end of 2006.

TAXES ON INCOME

Provisions for federal, foreign and state income taxes in the consolidated statements of operations consisted of the following components:

	FISCAL YEAR ENDED		
	2006	2005	2004
		(in thousands)	
Current expense/(benefit):			
Federal	$ (115)	$ 2,079	$ --
Foreign	16,183	13,081	9,032
State	(71)	706	134
	15,997	15,866	9,166
Deferred expense/(benefit):			
Federal	141	(10,972)	(16,147)
Foreign	2,503	4,225	1,833
State	156	575	6,519
	2,800	(6,172)	(7,795)
	$ 18,797	$ 9,694	$ 1,371

Income tax expense (benefit) is included in the accompanying consolidated statement of operations as follows:

	FISCAL YEAR ENDED		
	2006	2005	2004
		(in thousands)	
Continuing operations	$ 18,816	$ 17,561	$ 4,044
Loss from discontinued operations	(19)	(7,925)	(4,373)

Loss on disposal of discontinued operations		--		58		1,700
	$	18,797	$	9,694	$	1,371

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income (loss) from continuing operations before taxes on income consisted of the following:

	FISCAL YEAR ENDED		
	2006	2005	2004
		(in thousands)	
U.S. operations	$ (3,419)	$ (9,259)	$ (19,612)
Foreign operations	32,258	44,786	30,096
	$ 28,839	$ 35,527	$ 10,484

Deferred income taxes for the years ended December 31, 2006, and January 1, 2006, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

At December 31, 2006, the Company has approximately $128 million in federal net operating loss carryforwards from continuing operations with expiration dates through 2025. In addition, the Company has approximately $5.5 million in federal net operating losses from share-based payment awards for which it has not recorded a financial statement benefit as per SFAS No. 123R. The Company's foreign subsidiaries have approximately $9.2 million in net operating losses available for an unlimited carryforward period. The Company expects to utilize all of its federal and foreign carryforwards prior to their expiration. The Company has approximately $111 million in state net operating loss carryforwards relating to continuing operations with expiration dates through 2026. The Company has provided a valuation allowance against $17.4 million of such losses, which the Company does not expect to utilize. In addition, the Company has approximately $172 million in state net operating loss carryforwards relating to discontinued operations against which a valuation allowance has been provided.

The sources of the temporary differences and their effect on the net deferred tax asset are as follows:

	2006		2005	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
		(in thousands)		
Basis differences of property and equipment	$ --	$ 14,916	$ --	$ 14,766
Basis difference of intangible assets	--	4,687	--	4,420
Foreign currency loss	--	2,731	--	3,134
Net operating loss carryforwards, net of valuation allowances	51,803	--	54,084	--
Deferred compensation	14,853	--	8,821	--
Nondeductible reserves and accruals	5,549	--	3,397	--
Pensions	10,517	--	6,179	--
Other differences in basis of assets and liabilities	--	394	--	112
	$ 82,722	$ 22,728	$ 72,481	$ 22,432

Deferred tax assets and liabilities are included in the accompanying balance sheet as follows:

	FISCAL YEAR ENDED 2006	FISCAL YEAR ENDED 2005
	(in thousands)	
Deferred income taxes (current asset)	$ 6,839	$ 4,540
Other (non-current asset)	65,841	69,043
Deferred income taxes (non-current liabilities)	(12,686)	(23,534)
	$ 59,994	$ 50,049

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Management believes, based on the Company's history of operating expenses and expectations for the future, that it is more likely than not that future taxable income will be sufficient to fully utilize the deferred tax assets at December 31, 2006.

The Company's effective tax rate differs from the U.S. federal statutory rate. The following summary reconciles taxes at the U.S. federal statutory rate with the effective rates:

	FISCAL YEAR ENDED		
	2006	2005	2004
Taxes on income (benefit) at U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase(decrease) in taxes resulting from:			
State income taxes, net of federal benefit	1.0	(0.7)	(5.9)
Non-deductible business expenses	1.6	1.3	3.7
Foreign and U.S. tax effects attributable to foreign operations	4.2	2.6	4.8
Nondeductible loss on sale of foreign subsidiary	27.2	--	--
America Jobs Creation Act - Repatriation, including state taxes	--	9.6	--
Cumulative effect of change in tax rates	(2.4)	--	--
Valuation Allowance additions (reversals) - State NOL	(0.8)	2.6	--
Other	(0.6)	(1.0)	1.0
Taxes on income (benefit) at effective rates	65.2%	49.4%	38.6%

During 2006, Interface Europe, Ltd. (a foreign subsidiary of the Company based in the U.K.) sold 100% of the shares of its wholly owned subsidiary Interface Fabrics, Ltd. to a third party in connection with the Company's sale of its European fabrics business. As a result of the sale, the Company recorded a nondeductible book loss of approximately $22.4 million. This nondeductible loss resulted in an increase in the Company's effective tax rate of approximately 27.2%.

During the fourth quarter of 2006, the Dutch government enacted a tax rate reduction from 29.6% to 25.5%, effective January 1, 2007. SFAS No. 109, "Accounting for Income Taxes," requires that deferred tax balances be revalued to reflect such tax rate changes. The revaluation resulted in a decrease in the Company's effective tax rate of 2.4%.

The American Jobs Creation Act of 2004 (the "Act") was enacted into law in October 2004. The Act provided for a one-time dividend received deduction of 85%, in excess of the base-period amount, for qualifying foreign earnings repatriated from controlled foreign corporations. During 2005, the Company repatriated approximately $35.9 million in previously unremitted foreign earnings and recorded a provision for taxes on such previously unremitted foreign earnings of approximately $3.4 million.

During 2006, in connection with the sale of its European fabrics business, the Company repatriated approximately $1.4 million in previously unremitted foreign earnings and recorded a provision for taxes on such previously unremitted foreign earnings of approximately $0.5 million. This repatriation of foreign earnings increased the Company's effective rate by 1.7% which has been reflected as a component of the "Foreign and U.S. tax effects attributable to foreign operations" line item of the effective tax rate reconciliation.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $79 million at December 31, 2006. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation. Withholding taxes of approximately $3.1 million would be payable upon remittance of all previously un-remitted earnings at December 31, 2006.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DISCONTINUED OPERATIONS

During 2004, the Company committed to a plan to exit its owned Re:Source dealer businesses, and in the third quarter 2004 the Company began to dispose of several of the dealer subsidiaries. Therefore, the results for the owned Re:Source dealer businesses, as well as the Company's small Australian dealer and small residential fabrics businesses that management also decided to exit, were reported as discontinued operations. In connection with this action, the Company also recorded write-downs for the impairment of assets of $3.5 million in 2005 and for the impairment of assets and goodwill of $17.5 million and $29.0 million, respectively, in September 2004.

Through December 31, 2006, the Company had sold nine dealer businesses (eight of which were sold to the respective general managers of those businesses) and had closed six others. The cash proceeds from the sales were $7.5 million. The Company also received promissory notes in an aggregate amount of $2.2 million at interest rates ranging from prime to 12% and with maturities ranging from one to three years. The Company recorded after-tax losses of $1.9 million and $3.0 million in 2005 and 2004, respectively, related to Re:Source dealer business dispositions.

Summary operating results for the Re:Source dealer businesses are as follows:

	FISCAL YEAR ENDED		
	2006	2005	2004
	(in thousands)		
Net sales	$ 3,363	$ 30,916	$ 138,954
Income (loss) on operations before taxes on income (benefit)	(51)	(22,304)	(18,022)
Taxes on income (benefit)	(20)	(8,098)	(5,772)
Income (loss) on operations, net of tax	(31)	(15,137)	(12,250)
Impairment loss, net of tax	--	(3,466)	(46,565)
Loss on disposal, net of tax	--	(1,935)	(3,027)

Assets and liabilities, including reserves, related to Re:Source dealer businesses that were held for sale consist of the following:

	FISCAL YEAR ENDED	
	2006	2005
	(in thousands)	
Current assets	$ 876	$ 2,279
Property and equipment	--	898
Other assets	1,694	2,349
Current liabilities	1,331	4,162
Other liabilities	181	52

HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company has used derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by the fluctuations in values of the underlying exposures being hedged. The Company has not held or issued

derivative financial instruments for trading purposes. The Company has historically monitored the use of derivative financial instruments through the use of objective measurable systems, well-defined market and credit risk limits, and timely reports to senior management according to prescribed guidelines. The Company has established strict counter-party credit guidelines and has entered into transactions only with financial institutions of investment grade or better. As a result, the Company has historically considered the risk of counter-party default to be minimal. As of December 31, 2006, the Company was not a party to any such transactions.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

COMMITMENTS AND CONTINGENCIES

The Company leases certain production, distribution and marketing facilities and equipment. At December 31, 2006, aggregate minimum rent commitments under operating leases with initial or remaining terms of one year or more consisted of the following:

FISCAL YEAR		AMOUNT *(in thousands)*
2007	$	24,086
2008		19,377
2009		12,735
2010		11,146
2011		8,913
Thereafter		12,184
	$	88,441

The totals above exclude minimum lease payments of $0.4 million, $0.2 million, $0.2 million and $0.1 million in 2007, 2008, 2009 and 2010, respectively, related to the discontinued operations of the Re:Source dealer business. The totals above also exclude minimum lease payments of $0.6 million in each of years 2007-2010, related to the discontinued operations of the U.S. raised/access flooring business.

Rental expense amounted to approximately $25.2 million, $25.0 million and $24.9 million, for the years ended 2006, 2005 and 2004, respectively. This excludes rental expenses of approximately $0.2 million, $2.0 million and $4.6 million for 2006, 2005 and 2004, respectively, related to the discontinued operations of Re:Source dealers businesses, and excludes rental expenses of approximately $0.6 million, $0.6 million and $0.6 million for 2006, 2005 and 2004, respectively, related to the discontinued operations of the U.S. raised/access flooring business.

The Company is from time to time a party to routine litigation incidental to its business. Management does not believe that the resolution of any or all of such litigation will have a material adverse effect on the Company’s financial condition or results of operations.

EMPLOYEE BENEFIT PLANS

Defined Contribution and Deferred Compensation Plans

The Company has a 401(k) retirement investment plan (“401(k) Plan”), which is open to all otherwise eligible U.S. employees with at least six months of service. The 401(k) Plan calls for Company matching contributions on a sliding scale based on the level of the employee’s contribution. The Company may, at its discretion, make additional contributions to the Plan based on the attainment of certain performance targets by its subsidiaries. The Company’s matching contributions are funded bi-monthly and totaled approximately $2.0 million, $1.7 million and $1.5 million for the years ended 2006, 2005 and 2004, respectively, for continuing operations. These totals exclude $0.0 million, $0.1 million and $0.4 million of matching contributions for the years ended 2006, 2005 and 2004, respectively, related to the discontinued Re:Source dealer businesses. No discretionary contributions were made in 2006, 2005 or 2004.

Under the Company's nonqualified savings plans ("NSPs"), the Company provides eligible employees the opportunity to enter into agreements for the deferral of a specified percentage of their compensation, as defined in the NSPs. The obligations of the Company under such agreements to pay the deferred compensation in the future in accordance with the terms of the NSPs are unsecured general obligations of the Company. Participants have no right, interest or claim in the assets of the Company, except as unsecured general creditors. The Company has established a Rabbi Trust to hold, invest and reinvest deferrals and contributions under the NSPs. If a change in control of the Company occurs, as defined in the NSPs, the Company will contribute an amount to the Rabbi Trust sufficient to pay the obligation owed to each participant. Deferred compensation in connection with the NSPs totaled $14.9 million, which was invested in cash and marketable securities at December 31, 2006.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign Defined Benefit Plans

The Company has trusteed defined benefit retirement plans ("Plans") which cover many of its European employees. The benefits are generally based on years of service and the employee's average monthly compensation. Pension expense was $2.9 million, $4.8 million and $6.4 million, for the years ended 2006, 2005 and 2004, respectively. Plan assets are primarily invested in equity and fixed income securities. The Company uses a measurement date of December 31 for the Plans. As of December 31, 2006, for the European plans, the Company had a net liability recorded of $35.7 million, an amount equal to their unfunded status, and has recorded in Other Comprehensive Income ("OCI") an amount equal to $43.4 million (net of taxes) related to the future amounts to be recorded in net post-retirement benefit costs.

The tables presented below set forth the funded status of the Company's significant foreign defined benefit plans and required disclosures in accordance with SFAS No. 132, as revised.

	FISCAL YEAR ENDED			
	2006		2005	
	(in thousands)			
Change in benefit obligation				
Benefit obligation, beginning of year	$	206,662	$	214,484
Service cost		2,429		2,540
Interest cost		9,913		10,089
Benefits paid		(7,283)		(6,175)
Actuarial loss		9,108		10,012
Member contributions		792		791
Currency translation adjustment		27,353		(25,079)
Benefit obligation, end of year	$	248,974	$	206,662
Change in plan assets				
Plan assets, beginning of year	$	176,999	$	169,612
Actual return on assets		12,098		23,188
Company contributions		6,943		10,665
Member contributions		1,188		542
Benefits paid		(7,283)		(6,175)
Currency translation adjustment		23,303		(20,833)
Plan assets, end of year	$	213,248	$	176,999
Reconciliation to balance sheet				
Funded status	$	(35,726)	$	(29,663)
Unrecognized actuarial loss		--		48,046
Unrecognized prior service cost		--		384
Unrecognized transition adjustment		--		50
Net amount recognized	$	(35,726)	$	18,817

Amounts recognized in the consolidated balance sheets

Prepaid benefit cost	$	--	$	18,817
Accrued benefit liability		(35,726)		(27,763)
Accumulated other comprehensive income		--		27,763
Net amount recognized	$	(35,726)	$	18,817

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	FISCAL YEAR ENDED	
	2006	2005
	(In thousands)	
Amounts recognized in accumulated other comprehensive income		
Unrecognized actuarial loss	$ 43,185	$ --
Unamortized prior service costs	288	--
Total amount recognized	$ 43,473	$ --

	FISCAL YEAR ENDED		
	2006	2005	2004
		(in thousands)	
Components of net periodic benefit cost			
Service cost	$ 2,033	$ 2,540	$ 2,531
Interest cost	9,913	10,089	10,042
Expected return on plan assets	(11,157)	(10,457)	(11,638)
Amortization of prior service cost	39	168	48
Recognized net actuarial (gains)/losses	1,979	2,499	5,542
Amortization of transition asset	53	--	(168)
Net periodic benefit cost	$ 2,860	$ 4,839	$ 6,357

For 2007, it is estimated that approximately $3.4 million of expenses related to the amortization of unrecognized items will be included in the net periodic benefit cost.

	FISCAL YEAR ENDED		
	2006	2005	2004
Weighted average assumptions used to determine net periodic benefit cost			
Discount rate	4.7%	5.0%	5.2%
Expected return on plan assets	6.2%	6.4%	6.6%
Rate of compensation	3.4%	3.2%	2.9%
Weighted average assumptions used to determine benefit obligations			
Discount rate	5.0%	4.5%	5.1%
Rate of compensation	3.3%	3.1%	2.8%

The expected long-term rate of return on plan assets assumption is based on weighted average expected returns for each asset class. Expected returns reflect a combination of historical performance analysis and the forward-looking views of the financial markets, and include input from actuaries, investment service firms and investment managers.

The Company's foreign defined benefit plans' accumulated benefit obligations were in excess of the fair value of the plans' assets. The projected benefit obligations, accumulated benefit obligations and fair value of these plan assets are as follows:

	FISCAL YEAR ENDED	
	2006	2005
	(in thousands)	
Projected benefit obligation	$ 248,974	$ 206,662
Accumulated benefit obligations	243,938	203,807
Fair value of plan assets	213,248	176,999

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's actual weighted average asset allocations for 2006 and 2005, and the targeted asset allocation for 2007 of the foreign defined benefit plans by asset category, are as follows:

	FISCAL YEAR ENDED		
	2007	2006	2005
	Target Allocation	Percentage of Plan Assets at Year End	
Asset Category:			
Equity Securities	65-69%	69%	72%
Debt Securities	25-28%	25%	22%
Other	3-7%	6%	6%
	100%	100%	100%

The investment objectives of the foreign defined benefit plans are to maximize the return on the investments without exceeding the limits of the prudent pension fund investment, to ensure that the assets would be sufficient to exceed minimum funding requirements, and to achieve a favorable return against the performance expectation based on historic and projected rates of return over the short term. The goal is to optimize the long-term return on plan assets at a moderate level of risk, by balancing higher-returning assets, such as equity securities, with less volatile assets, such as fixed income securities. The assets are managed by professional investment firms and performance is evaluated periodically against specific benchmarks. The Plans' net assets did not include the Company's own stock at December 31, 2006, or January 1, 2006.

During 2007, the Company expects to contribute $6.8 million to the plan trust and $8.1 million in the form of direct benefit payments for its foreign defined benefit plans. It is anticipated that future benefit payments for the foreign defined benefit plans will be as follows:

FISCAL YEAR ENDED	EXPECTED PAYMENTS *(in thousands)*
2007	$ 8,143
2008	8,429
2009	8,753
2010	9,020
2011	9,305
2012-2016	50,602

Impact of the Adoption of SFAS No. 158 with Regard to the Above Plans

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R." This standard requires employers that sponsor defined benefit plans to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its balance sheet, and to recognize changes in that funded status in the

year in which the changes occur. Unrecognized prior service credits/costs and net actuarial gains/losses are recognized as a component of accumulated other comprehensive income/(loss). Additional minimum pension liabilities and related intangible assets are eliminated upon adoption of the new standard. SFAS No. 158 requires prospective application and is effective for financial statements issued for fiscal years ending after December 15, 2006. The following table summarizes the initial effect of the adoption of SFAS No. 158 (in thousands):

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Before Adoption (under SFAS No. 87)	Adjustments (under SFAS No. 158)	As reported (under SFAS No. 158)
Prepaid asset	$ 7,906	$ (7,906)	$ --
Liability	(30,690)	(5,036)	(35,726)
Accumulated other comprehensive income (pre-tax)	48,294	12,942	61,236

Domestic Defined Benefit Plan

The Company maintains a domestic nonqualified salary continuation plan (“SCP”), which is designed to induce selected officers of the Company to remain in the employ of the Company by providing them with retirement, disability and death benefits in addition to those which they may receive under the Company’s other retirement plans and benefit programs. The SCP entitles participants to: (i) retirement benefits upon retirement at age 65 (or early retirement at age 55) after completing at least 15 years of service with the Company (unless otherwise provided in the SCP), payable for the remainder of their lives (or, if elected by a participant, a reduced benefit is payable for the remainder of the participant’s life and any surviving spouse’s life) and in no event less than 10 years under the death benefit feature; (ii) disability benefits payable for the period of any pre-retirement total disability; and (iii) death benefits payable to the designated beneficiary of the participant for a period of up to 10 years (or, if elected by a surviving spouse that is the designated beneficiary, a reduced benefit is payable for the remainder of such surviving spouse’s life). Benefits are determined according to one of three formulas contained in the SCP, and the SCP is administered by the Compensation Committee of the Company’s Board of Directors, which has full discretion in choosing participants and the benefit formula applicable to each. The Company’s obligations under the SCP are currently unfunded (although the Company uses insurance instruments to hedge its exposure thereunder). The Company is required to contribute the present value of its obligations thereunder to an irrevocable grantor trust in the event of a change in control as defined in the SCP. The Company uses a measurement date of December 31 for the domestic SCP.

The tables presented below set forth the required disclosures in accordance with SFAS No. 132, as revised, and amounts recognized in the consolidated financial statements related to the domestic SCP.

	FISCAL YEAR ENDED	
	2006	2005
	(in thousands)	
Change in benefit obligation		
Benefit obligation, beginning of year	$ 15,616	$ 13,909
Service cost	267	221
Interest cost	849	802
Benefits paid	(360)	(343)
Actuarial loss	(302)	1,027
Benefit obligation, end of year	$ 16,070	$ 15,616

As discussed above, in September 2006 the FASB issued SFAS No. 158. The following table summarizes the effect of the initial adoption of SFAS No. 158 on the SCP (in thousands):

	Before Adoption (under SFAS No. 87)	Adjustments (under SFAS No. 158)	As reported (under SFAS No. 158)
Intangible asset	$ 1,456	$ (1,456)	$ --
Liability	(13,955)	(2,115)	(16,070)
Accumulated other comprehensive income (pre-tax)	2,764	3,571	6,335

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the amounts in accumulated other comprehensive income are as follows (in thousands):

Unrecognized actuarial loss	$	4,880
Unrecognized transition asset		1,094
Unamortized prior service cost		361
	$	6,335

The accumulated benefit obligation related to the SCP was $14.0 million and $13.4 million as of December 31, 2006, and January 1, 2005, respectively. The SCP is currently unfunded; as such, the benefit obligations disclosed are also the benefit obligations in excess of the plan assets.

		2006		2005		2004
	(in thousands, except for weighted average assumptions)					
Weighted average assumptions used to determine net periodic benefit cost						
Discount rate		5.5%		5.8%		6.0%
Rate of compensation		4.0%		4.0%		4.0%
Weighted average assumptions used to determine benefit obligations						
Discount rate		5.75%		5.5%		5.8%
Rate of compensation		4.0%		4.0%		4.0%
Components of net periodic benefit cost						
Service cost	$	267	$	221	$	182
Interest cost		849		802		754
Amortization of transition obligation		588		546		565
Net periodic benefit cost	$	1,704	$	1,569	$	1,501

For 2007, the Company estimates that approximately $0.6 million of expenses related to the amortization of unrecognized items will be included in net periodic benefit cost.

During 2006, the Company contributed $0.4 million in the form of direct benefit payments for its domestic SCP. It is anticipated that future benefit payments for the SCP will be as follows:

FISCAL YEAR ENDED		EXPECTED PAYMENTS *(in thousands)*
2007	$	1,020
2008		1,051
2009		1,051
2010		1,051
2011		1,051
2012-2016		5,398

SALE OF EUROPEAN FABRICS BUSINESS

In April 2006, the Company sold its European fabrics business for $28.8 million to an entity formed by the business's management team. As discussed below, a first quarter 2006 impairment charge of $20.7 million was recorded in connection with this sale. The major classes of assets and liabilities related to this disposal group included accounts receivable of $11.9 million, inventory of $11.4 million, property, plant and equipment of $9.5 million and accounts payable of $7.6 million. In the second quarter of 2006, the transaction resulted in a net loss on disposal of $1.7 million, which was included in operating income in the consolidated condensed statement of operations.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IMPAIRMENT OF GOODWILL

During the first quarter of 2006, in connection with the sale of its European fabrics business, the Company recorded a charge of $20.7 million for the impairment of goodwill related to its fabrics reporting unit and those European operations. This charge was based on a review of the Company's carrying value of goodwill at its fabrics facilities as compared to the potential fair value as represented by the proposed sale price. When there is an indication that the carrying amount of a portion of a reporting unit exceeds its fair value, the Company measures the possible goodwill impairment based on an allocation of the estimated fair value of the reporting unit to its underlying assets and liabilities. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized to the extent that the reporting unit's recorded goodwill exceeds the implied fair value of goodwill. This impairment charge has been included in income from continuing operations in the consolidated statement of operations.

SEGMENT INFORMATION

Based on the quantitative thresholds specified in SFAS No. 131, the Company has determined that it has four reportable segments: (1) the Modular Carpet segment, which includes its *InterfaceFLOR, Heuga,* and *FLOR* modular carpet businesses, as well as its *Intersept* antimicrobial sales and licensing program, (2) the Bentley Prince Street segment, which includes its *Bentley Prince Street* broadloom, modular carpet and area rug businesses, (3) the Fabrics Group segment, which includes all of its fabrics businesses worldwide, and (4) the Specialty Products segment, which includes Pandel, Inc., a producer of vinyl carpet tile backing and specialty mat and foam products. The former segment known as the Re:Source Network, which primarily encompassed the Company's owned Re:Source dealers that provided carpet installation and maintenance services in the United States, is now reported as discontinued operations in the accompanying consolidated statements of operations.

The accounting policies of the operating segments are the same as those described in Summary of Significant Accounting Policies. Segment amounts disclosed are prior to any elimination entries made in consolidation, except in the case of net sales, where intercompany sales have been eliminated. Intersegment sales are accounted for at fair value as if sales were to third parties. Intersegment sales are not material. The chief operating decision maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure primarily consist of allocated corporate expenses, interest/other expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. Assets not identifiable to an individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, short-term investments, intangible assets and intercompany amounts, which are eliminated in consolidation.

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEGMENT DISCLOSURES

Summary information by segment follows:

	MODULAR CARPET	BENTLEY PRINCE STREET	FABRICS GROUP	SPECIALTY PRODUCTS	TOTAL
			(in thousands)		
2006					
Net Sales	$ 763,659	$ 137,920	$ 161,183	$ 13,080	$ 1,075,842
Depreciation and amortization	15,669	1,816	9,413	87	26,985
Operating income	98,244	5,931	(27,259)	364	77,280
Total assets	481,346	118,816	155,752	4,045	759,959
2005					
Net Sales	$ 646,213	$ 125,167	$ 198,842	$ 15,544	$ 985,766
Depreciation and amortization	13,644	1,708	11,007	111	26,470
Operating income	77,351	3,494	4,285	651	85,781
Total assets	425,922	113,320	209,495	3,755	752,492
2004					
Net sales	$ 563,397	$ 119,058	$ 186,408	$ 12,795	$ 881,658
Depreciation and amortization	13,921	1,682	10,038	167	25,808
Operating income (loss)	63,888	114	824	(477)	64,349
Total assets	490,908	112,541	217,554	4,178	825,181

Due primarily to the sale of the European fabrics business and the related impairment of goodwill, the total segment assets of the Fabrics Group decreased by $53.7 million (from $209.5 million to $155.8 million) during 2006.

A reconciliation of the Company's total segment operating income (loss), depreciation and amortization, and assets to the corresponding consolidated amounts follows:

	FISCAL YEAR ENDED		
	2006	2005	2004
		(in thousands)	
DEPRECIATION AND AMORTIZATION			
Total segment depreciation and amortization	$ 26,985	$ 26,470	$ 25,808
Corporate depreciation and amortization	4,178	4,985	7,528
Reported depreciation and amortization	$ 31,163	$ 31,455	$ 33,336
OPERATING INCOME			
Total segment operating income	$ 77,280	$ 85,781	$ 64,349
Corporate expenses and eliminations	(4,918)	(3,780)	(3,607)
Reported operating income	$ 72,362	$ 82,001	$ 60,742

ASSETS				
Total segment assets	$	759,959	$	752,492
Discontinued operations		2,570		5,526
Corporate assets and eliminations		165,811		80,972
Reported total assets	$	928,340	$	838,990

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restructuring activities by segment

The table below details the restructuring activities undertaken in 2006 by segment. These charges were all incurred during the first quarter of 2006.

	MODULAR CARPET	BENTLEY PRINCE STREET	FABRICS GROUP	SPECIALITY PRODUCTS	TOTAL
			(in thousands)		
Total amounts expected to be incurred	$ --	$ --	$ 3,260	$ --	$ 3,260
Cumulative amounts incurred to date	--	--	$ 3,260	--	$ 3,260
Total amounts incurred in the period	--	--	$ 3,260	--	$ 3,260

There were no restructuring activities in 2005 or 2004.

ENTERPRISE-WIDE DISCLOSURES

The Company has a large and diverse customer base, which includes numerous customers located in foreign countries. No single unaffiliated customer accounted for more than 10% of total sales in any year during the three years ended December 31, 2006. Sales in foreign markets in 2006, 2005 and 2004 were 36.9%, 43.3% and 43.8%, respectively. These sales were primarily to customers in Europe, Canada, Asia, Australia and Latin America. Revenue and long-lived assets related to operations in the United States and other countries follows:

	FISCAL YEAR ENDED 2006	2005	2004
		(in thousands)	
SALES TO UNAFFILIATED CUSTOMERS[1]			
United States	$ 618,295	$ 558,464	$ 495,836
United Kingdom	141,872	163,607	153,936
Other foreign countries	315,675	263,695	231,886
Net sales	$ 1,075,842	$ 985,766	$ 881,658
LONG-LIVED ASSETS[2]			
United States	$ 118,565	$ 115,089	
United Kingdom	30,260	37,006	
Netherlands	17,626	19,044	
Other foreign countries	22,274	14,504	
Total long-lived assets	$ 188,725	$ 185,643	

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[1] Revenue attributed to geographic areas is based on the location of the customer.

[2] Long-lived assets include tangible assets physically located in foreign countries.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

QUARTERLY DATA AND SHARE INFORMATION (UNAUDITED)

The following tables set forth, for the fiscal periods indicated, selected consolidated financial data and information regarding the market price per share of the Company's Class A Common Stock. The prices represent the reported high and low sale prices during the period presented.

	FISCAL YEAR ENDED 2006			
	FIRST QUARTER(1)	SECOND QUARTER(2)	THIRD QUARTER	FOURTH QUARTER
	(in thousands, except share data)			
Net sales	$ 250,634	$ 258,678	$ 270,612	$ 295,918
Gross profit	78,982	81,167	85,334	94,112
Income (loss) from continuing operations	(17,082)	5,906	9,106	12,093
Loss from discontinued operation	(6)	(21)	--	(4)
Loss on disposal of discontinued operations	--	--	--	--
Net income (loss)	(17,088)	5,885	9,106	12,089
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ (0.32)	$ 0.11	$ 0.17	$ 0.21
Loss from discontinued operation	--	--	--	--
Loss on disposal of discontinued operations	--	--	--	--
Net income (loss)	(0.32)	0.11	0.17	0.21
Diluted income (loss) per common share:				
Income from continuing operations	$ (0.32)	$ 0.11	$ 0.17	$ 0.21
Loss from discontinued operation	--	--	--	--
Loss on disposal of discontinued operations	--	--	--	--
Net income (loss)	(0.32)	0.11	0.17	0.21
Share prices				
High	$ 14.31	$ 15.70	$ 13.83	$ 15.59
Low	8.05	9.89	10.12	12.31

(1) During the first quarter of 2006, the Company recorded a pre-tax non-cash charge of $20.7 million for the impairment of goodwill in connection with the sale of its European fabrics business.

(2) During the second quarter of 2006, the Company recorded a $1.7 million loss on the divestiture of its European fabrics business.

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Explanation of Responses:

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	FISCAL YEAR ENDED 2005			
	FIRST QUARTER[(1)]	SECOND QUARTER[(1)]	THIRD QUARTER	FOURTH QUARTER
	(in thousands, except share data)			
Net sales	$ 234,715	$ 246,545	$ 243,898	$ 260,608
Gross profit	71,139	77,228	76,541	79,789
Income from continuing operations	2,923	3,940	5,337	5,766
Loss from discontinued operation	(4,762)	(9,763)	(216)	(50)
Loss on disposal of discontinued operations	(337)	(1,598)	--	--
Net income (loss)	(2,176)	(7,421)	5,121	5,716
Basic income (loss) per common share:				
Income (loss) from continuing operations	$ 0.06	$ 0.08	$ 0.10	$ 0.11
Loss from discontinued operation	(0.09)	(0.19)	--	--
Gain (loss) on disposal of discontinued operations	(0.01)	(0.03)	--	--
Net income (loss)	(0.04)	(0.14)	0.10	0.11
Diluted income (loss) per common share:				
Income (loss) from continuing operations	$ 0.06	$ 0.08	$ 0.10	$ 0.11
Loss from discontinued operation	(0.09)	(0.19)	--	--
Gain (loss) on disposal of discontinued operations	(0.01)	(0.03)	--	--
Net income (loss)	(0.04)	(0.14)	0.10	0.11
Share prices				
High	$ 10.04	$ 8.37	$ 10.65	$ 9.02
Low	6.35	5.70	7.60	7.51

(1) During the first and second quarters of 2005, the Company recorded write-downs for the impairment of assets of $0.5 million and $3.0 million, respectively, related to the discontinued *Re:Source* dealer business. These amounts are included in loss from discontinued operations (see the discussion in the above note entitled “Discontinued Operations”).

SUBSEQUENT EVENTS

Sale of Pandel, Inc.

On March 7, 2007, the Company sold its subsidiary Pandel, Inc. for approximately $1.4 million to an entity formed by the general manager of Pandel. Pandel primarily produces vinyl carpet tile backing and specialty mat and foam products. The total assets of this business were $3.3 million, comprised primarily of inventory and accounts receivable. Total liabilities related to this business were $0.4 million. In 2006, Pandel had net sales of $13.0 million. Prior to the sale, certain of Pandel’s production assets were conveyed to another subsidiary of the Company, where they will continue to be used in its carpet tile backing process.

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Agreement with ABN AMRO Bank N.V.

On March 9, 2007, Interface Europe B.V. (the Company's modular carpet subsidiary based in the Netherlands) and certain of its subsidiaries entered into a Credit Agreement with ABN AMRO Bank N.V. Under the Credit Agreement, ABN AMRO will provide a credit facility for borrowings and bank guarantees in varying aggregate amounts over time as follows:

Time Period	Maximum Amount in Euros *(in millions)*
January 1, 2007 - April 30, 2007	20
May 1, 2007 - September 30, 2007	26
October 1, 2007 - April 30, 2008	15
May 1, 2008 - September 30, 2008	21
October 1, 2008 - April 30, 2009	10
May 1, 2009 - September 30, 2009	16
From October 1, 2009	5

These borrowings will be used to refinance, in part, a pre-existing intercompany loan, and to finance the general working capital needs of Interface Europe B.V. and certain of its subsidiaries.

SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The "guarantor subsidiaries," which consist of the Company's principal domestic subsidiaries, are guarantors of the Company's 10.375% senior notes due 2010, its 7.3% notes due 2008, and its 9.5% senior subordinated notes due 2014. The Supplemental Guarantor Financial Statements are presented herein pursuant to requirements of the Commission.

STATEMENT OF OPERATIONS FOR YEAR ENDED 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
Net sales	$ 950,369	$ 466,035	$ --	$ (340,562)	$ 1,075,842
Cost of sales	771,966	304,843	--	(340,562)	736,247
Gross profit on sales	178,403	161,192	--	--	339,595
Selling, general and administrative expenses	120,802	96,107	24,629	--	241,538
Impairment of goodwill	--	20,712	--	--	20,712
Restructuring charge	3,260	--	--	--	3,260

Loss on disposal - European fabrics	--	1,723	--	--	1,723
Operating income (loss)	54,341	42,650	(24,629)	--	72,362
Interest/Other expense	24,550	9,181	9,792	--	43,523
Income (loss) before taxes on income and equity in income of subsidiaries	29,791	33,469	(34,421)	--	28,839
Income tax expense (benefit)	11,555	18,120	(10,859)	--	18,816
Equity in income (loss) of subsidiaries	--	--	33,554	(33,554)	--
Income (loss) from continuing operations	18,236	15,349	9,992	(33,554)	10,023
Income (loss) on discontinued operations, net of tax	(31)	--	--	--	(31)
Loss on disposal of discontinued operations, net of tax	--	--	--	--	--
Net income (loss)	$ 18,205	$ 15,349	$ 9,992	$ (33,554)	$ 9,992

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENT OF OPERATIONS FOR YEAR ENDED 2005

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
Net sales	$ 856,286	$ 435,217	$ --	$ (305,737)	$ 985,766
Cost of sales	698,690	288,116	--	(305,737)	681,069
Gross profit on sales	157,596	147,101	--	--	304,697
Selling, general and administrative expenses	107,342	92,578	22,776	--	222,696
Operating income (loss)	50,254	54,523	(22,776)	--	82,001
Other expense (income)					
Interest expense, net	20,293	2,304	22,944	--	45,541
Other	9,816	6,286	(15,169)	--	933
Total other expense	30,109	8,590	7,775	--	46,474
Income (loss) before taxes on income and equity in income of subsidiaries	20,145	45,933	(30,551)	--	35,527
Taxes on income (benefit)	6,647	16,656	(5,742)	--	17,561
Equity in income (loss) of subsidiaries	--	--	26,049	(26,049)	--
Income (loss) from continuing operations	13,498	29,277	1,240	(26,049)	17,966
Discontinued operations, net of tax	(14,791)	--	--	--	(14,791)
Loss on disposal of discontinued operation, net of tax	(1,935)	--	--	--	(1,935)
Net income (loss)	$ (3,228)	$ 29,277	$ 1,240	$ (26,049)	$ 1,240

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENT OF OPERATIONS FOR YEAR ENDED 2004

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
Net sales	$ 808,604	$ 386,728	$ --	$ (313,674)	$ 881,658
Cost of sales	670,307	259,664	--	(313,674)	616,297
Gross profit on sales	138,297	127,064	--	--	265,361
Selling, general and administrative expenses	95,818	86,594	22,207	--	204,619
Restructuring charge	--	--	--	--	--
Operating income (loss)	42,479	40,470	(22,207)	--	60,742
Other expense (income)					
Interest expense, net	15,931	3,525	26,567	--	46,023
Other	(44)	5,371	(1,092)	--	4,235
Total other expense	15,887	8,896	25,475	--	50,258
Income (loss) before taxes on income and equity in income of subsidiaries	26,592	31,574	(47,682)	--	10,484
Taxes on income (benefit)	(796)	11,958	(7,118)	--	4,044
Equity in income (loss) of subsidiaries	--	--	(14,838)	14,838	--
Income (loss) from continuing operations	27,388	19,616	(55,402)	14,838	6,440
Discontinued operations, net of tax	(57,808)	(1,007)	--	--	(58,815)
Loss on disposal of discontinued operation, net of tax	(3,027)	--	--	--	(3,027)
Net income (loss)	$ (33,447)	$ 18,609	$ (55,402)	$ 14,838	$ (55,402)

INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BALANCE SHEET AS OF DECEMBER 31, 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 1,719	$ 33,131	$ 75,370	$ --	$ 110,220
Accounts receivable	81,807	74,330	3,293	--	159,430
Inventories	96,914	51,049	--	--	147,963
Prepaids and deferred income taxes	7,740	13,559	7,477	--	28,776
Assets of business held for sale	2,464	106	--	--	2,570
Total current assets	190,644	172,175	86,140	--	448,959
Property and equipment, less accumulated depreciation	113,161	69,970	5,594	--	188,725
Investments in subsidiaries	204,408	126,229	152,002	(482,639)	--
Goodwill	108,075	72,032	--	--	180,107
Other assets	14,379	23,811	72,359	--	110,549
	$ 630,667	$ 464,217	$ 316,095	$ (482,639)	$ 928,340
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:	$ 59,744	$ 68,207	$ 31,655	$ --	$ 159,606
Long-term debt, less current maturities	--	--	--	--	--
Senior notes and senior subordinated notes	--	--	411,365	--	411,365
Deferred income taxes	14,227	7,983	(9,524)	--	12,686
Other	14,021	43,414	7,348	--	64,783
Total liabilities	87,992	119,604	440,844	--	648,440
Minority interests	--	5,506	--	--	5,506
Shareholders' equity					
Redeemable preferred stock	57,891	--	--	(57,891)	--
Common stock	94,145	102,199	6,066	(196,344)	6,066
Additional paid-in capital	191,411	12,525	323,132	(203,936)	323,132
Retained earnings	200,366	274,084	(444,765)	(24,468)	5,217
Foreign currency translation adjustment	(1,138)	(6,289)	(5,420)	--	(12,847)

Pension liability	--	(43,412)	(3,762)	--	(47,174)
Total shareholders' equity	542,675	339,107	(124,749)	(482,639)	274,394
	$ 630,667	$ 464,217	$ 316,095	$ (482,639)	$ 928,340

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BALANCE SHEET AS OF JANUARY 1, 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
ASSETS					
Current					
Cash	$ 572	$ 29,578	$ 21,162	$ --	$ 51,312
Accounts receivable	77,086	63,302	1,020	--	141,408
Inventories	82,421	47,788	--	--	130,209
Other	7,588	7,905	5,671	--	21,164
Assets of business held for sale	4,655	871	--	--	5,526
Total current assets	172,322	149,444	27,853	--	349,619
Property and equipment, less accumulated depreciation	110,136	70,385	5,122	--	185,643
Investments in subsidiaries	194,143	88,459	159,761	(442,363)	--
Other	16,154	26,163	67,706	--	110,023
Goodwill	108,075	85,630	--	--	193,705
	$ 600,830	$ 420,081	$ 260,442	$ (442,363)	$ 838,990
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	$ 53,441	$ 62,869	$ 23,797	$ --	$ 140,107
Long-term debt, less current maturities	--	--	458,000	--	458,000
Deferred income taxes	14,949	9,801	(1,216)	--	23,534
Other long-term liabilities	10,303	27,784	2,777	--	40,864
Total liabilities	78,693	100,454	483,358	--	662,505
Minority interests	--	4,409	--	--	4,409
Shareholders' equity					
Preferred stock	57,891	--	--	(57,891)	--
Common stock	94,145	102,199	5,335	(196,345)	5,334
Additional paid-in capital	191,411	12,525	234,314	(203,936)	234,314
Retained earnings	182,137	258,735	(458,124)	15,809	(1,443)
Foreign currency translation adjustment	(3,447)	(30,459)	(4,441)	--	(38,347)
Minimum pension liability	--	(27,782)	--	--	(27,782)
Total shareholders' equity	522,137	315,218	(222,916)	(442,363)	172,076

$	600,830	$	420,081	$	260,442	$	(442,363)	$	838,990

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS FOR YEAR ENDED 2006

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
Net cash provided by (used for) operating activities	$ 29,980	$ (18,696)	$ 18,790	$ --	$ 30,074
Cash flows from investing activities:					
Purchase of plant and equipment	(23,539)	(9,025)	(1,472)	--	(34,036)
Cash proceeds from sale of European fabrics	--	28,837	--	--	28,837
Other	(612)	45	(6,794)	--	(7,361)
Net cash provided by (used for) investing activities	(24,151)	19,857	(8,266)	--	(12,560)
Cash flows from financing activities:					
Net borrowings	--	--	(46,634)	--	(46,634)
Proceeds from issuance of common stock	--	--	86,413	--	86,413
Debt issuance cost	--	--	(777)	--	(777)
Other	--	--	--	--	--
Net cash provided by (used for) financing activities	--	--	39,002	--	39,002
Effect of exchange rate changes on cash	--	2,392	--	--	2,392
Net increase (decrease) in cash	5,829	3,553	49,526	--	58,908
Cash, at beginning of year	572	29,578	21,162	--	51,312
Cash, at end of year	$ 6,401	$ 33,131	$ 70,688	$ --	$ 110,220

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS FOR YEAR ENDED 2005

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
Cash flows from operating activities	$ 20,515	$ 17,489	$ 23,297	$ --	$ 61,301
Cash flows from investing activities:					
Purchase of plant and equipment	(17,370)	(9,150)	1,042	--	(25,478)
Other	(2,405)	--	(2,688)	--	(5,093)
Cash used in investing activities	(19,775)	(9,150)	(1,646)	--	(30,571)
Cash flows from financing activities:					
Net borrowings (repayments)	--	--	(2,000)	--	(2,000)
Issuance of senior notes	--	--	--	--	--
Repurchase of senior subordinated notes	--	--	--	--	--
Debt issuance cost	--	--	--	--	--
Proceeds from issuance of common stock	--	--	2,960	--	2,960
Other	478	(262)	(216)	--	--
Cash provided by (used in) financing activities	478	(262)	744	--	960
Effect of exchange rate changes on cash	(646)	(1,896)	--	--	(2,542)
Net increase (decrease) in cash	572	6,181	22,395	--	29,148
Cash, at beginning of year	--	23,397	(1,233)	--	22,164
Cash, at end of year	$ 572	$ 29,578	$ 21,162	$ --	$ 51,312

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INTERFACE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENT OF CASH FLOWS FOR YEAR ENDED 2004

	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	INTERFACE, INC. (PARENT CORPORATION)	CONSOLIDATION & ELIMINATION ENTRIES	CONSOLIDATED TOTALS
			(in thousands)		
Cash flows from operating activities	$ 8,967	$ 34,465	$ (33,891)	$ --	$ 9,541
Cash flows from investing activities:					
Purchase of plant and equipment	(11,309)	(4,574)	100	--	(15,783)
Other	2,547	340	5,123	--	8,010
Cash used in investing activities	(8,762)	(4,234)	5,223	--	(7,773)
Cash flows from financing activities:					
Net borrowings (repayments)	(205)	(21,834)	22,039	--	--
Issuance of senior notes	--	--	135,000	--	135,000
Repurchase of senior subordinated notes	--	--	(120,000)	--	(120,000)
Debt issuance cost	--	--	(4,237)	--	(4,237)
Proceeds from issuance of common stock	--	--	4,442	--	4,442
Other	--	--	--	--	--
Cash provided by (used in) financing activities	(205)	(21,834)	37,244	--	15,205
Effect of exchange rate changes on cash	--	2,301	--	--	2,301
Net increase (decrease) in cash	--	10,698	8,576	--	19,274
Cash, at beginning of year	--	12,699	(9,809)	--	2,890
Cash, at end of year	$ --	$ 23,397	$ (1,233)	$ --	$ 22,164

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of Interface, Inc.
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Interface, Inc. as of December 31, 2006 and January 1, 2006 and the related consolidated statements of operations and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Interface, Inc. at December 31, 2006 and January 1, 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the footnote entitled "Employee Benefit Plans", the Company adopted the provisions of Statement of Financial Accounting Standard No. 158 during 2006. As discussed in the footnote entitled "Recent Accounting Pronouncements", the Company adopted the provisions of Staff Accounting Bulletin No. 108 during 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 9, 2007 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP

Atlanta, Georgia
March 9, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders of Interface, Inc.
Atlanta, Georgia

We have audited management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting in Item 9A of Form 10-K, that Interface, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; and (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Interface, Inc. and subsidiaries as of December 31, 2006 and January 1, 2006 and the related consolidated statements of operations and comprehensive income (loss) and cash flows for each of the three fiscal years in the period ended December 31, 2006 and our report dated March 9, 2007 expressed an

unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP

Atlanta, Georgia
March 9, 2007

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, an evaluation was performed under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Act"), pursuant to Rule 13a-14(c) under the Act. Based on that evaluation, our President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report.

Management's Annual Report on Internal Control over Financial Reporting. The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control - Integrated Framework." Based on that assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting was effective based on those criteria. There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent auditors have issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on page 84.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information contained under the captions "Nomination and Election of Directors", "Section 16(a) Beneficial Ownership Reporting Compliance", "Meetings and Committees of the Board of Directors" and "Corporate Governance" in our definitive Proxy Statement for our 2007 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2006 fiscal year, is incorporated herein by reference. Pursuant to Instruction 3 to Paragraph (b) of Item 401 of Regulation S-K, information relating to our executive officers is included in Item 1 of this Report.

The Company has adopted the "Interface Code of Business Conduct and Ethics," which applies to all employees, officers and directors of the Company, including the Chief Executive Officer and Chief Financial Officer. The Code may be viewed on the Company's website at www.interfaceinc.com. Changes to the Code will be posted on the Company's website. Any waiver of the Code for executive officers or directors may be made only by the Company's Board of Directors and will be disclosed to the extent required by law or Nasdaq rules on the Company's website or in a filing on Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the caption "Executive Compensation and Related Items" in our definitive Proxy Statement for our 2007 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2006 fiscal year, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained under the captions "Principal Shareholders and Management Stock Ownership" and "Equity Compensation Plan Information" in our definitive Proxy Statement for our 2007 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2006 fiscal year, is incorporated herein by reference.

For purposes of determining the aggregate market value of our voting and non-voting stock held by non-affiliates, shares held of record by our directors and executive officers have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be "affiliates" as that term is defined under federal securities laws.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained under the caption "Executive Compensation and Related Items — Certain Relationships and Related Transactions, and Director Independence" in our definitive Proxy Statement for our 2007 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2006 fiscal year, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information contained under the caption "Information Concerning the Company's Accountants" in our definitive Proxy Statement for our 2007 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our 2006 fiscal year, is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

The following Consolidated Financial Statements and Notes thereto of Interface, Inc. and subsidiaries and related Reports of Independent Registered Public Accounting Firm are contained in Item 8 of this Report:

Consolidated Statements of Operations and Comprehensive Income (Loss) — years ended December 31, 2006, January 1, 2006, and January 2, 2005

Consolidated Balance Sheets — December 31, 2006, and January 1, 2006

Consolidated Statements of Cash Flows — years ended December 31, 2006, January 1, 2006, and January 2, 2005

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

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2. Financial Statement Schedule

The following Consolidated Financial Statement Schedule of Interface, Inc. and subsidiaries and related Report of Independent Registered Public Accounting Firm are included as part of this Report (see pages 92-94):

Report of Independent Registered Public Accounting Firm

Schedule II — Valuation and Qualifying Accounts and Reserves

3. Exhibits

The following exhibits are included as part of this Report:

Exhibit Number		Description of Exhibit
3.1	—	Restated Articles of Incorporation (included as Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended July 5, 1998 (the "1998 Second Quarter 10-Q"), previously filed with the Commission and incorporated herein by reference).
3.2	—	Bylaws, as amended and restated (included as Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended April 1, 2001, previously filed with the Commission and incorporated herein by reference).
4.1	—	See Exhibits 3.1 and 3.2 for provisions in the Company's Articles of Incorporation and Bylaws defining the rights of holders of Common Stock of the Company.
4.2	—	Rights Agreement between the Company and Wachovia Bank, N.A., dated as of March 4, 1998,with an effective date of March 16, 1998 (included as Exhibit 10.1A to the Company's registration statement on Form 8-A/A dated March 12, 1998, previously filed with the Commission and incorporated herein by reference).
4.3	—	Form of Indenture governing the Company's 7.3% Senior Notes due 2008, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank, as Trustee (the "1998 Indenture") (included as Exhibit 4.1 to the Company's registration statement on Form S-3/A, File No. 333-46611, previously filed with the Commission and incorporated herein by reference); Supplement No. 1 to the 1998 Indenture, dated as of December 31, 2002 (included as Exhibit 4.4 to the Company's annual report on Form 10-K for the year ended December 29, 2002 (the "2002 10-K"), previously filed with the Commission and incorporated herein by reference); Supplement No. 2 to the 1998 Indenture, dated as of June 18, 2003 (included as Exhibit 4.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2003 (the "2003 Second Quarter 10-Q"), previously filed with the Commission and incorporated herein by reference); and Supplement No. 3 to the 1998 Indenture, dated as of January 10, 2005 (included as Exhibit 99.1 to the Company's current report on Form 8-K dated February 15, 2005, previously filed with the Commission and incorporated herein by reference).
4.4	—	Indenture governing the Company's 10.375% Senior Notes due 2010, among the Company, certain U.S. subsidiaries of the Company, as Guarantors, and First Union National Bank, as Trustee (the "2002 Indenture") (included as Exhibit 4.5 to the Company's annual report on Form 10-K for the year ended December 30, 2001

(the "2001 10-K"), previously filed with the Commission and incorporated herein by reference); Supplemental Indenture related to the 2002 Indenture, dated as of December 31, 2002 (included as Exhibit 4.5 to the 2002 10-K, previously filed with the Commission and incorporated herein by reference); Second Supplemental Indenture related to the 2002 Indenture, dated as of June 18, 2003 (included as Exhibit 4.3 to the 2003 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Third Supplemental Indenture related to the 2002 Indenture, dated as of January 10, 2005 (included as Exhibit 99.2 to the Company's current report on Form 8-K dated February 15, 2005, previously filed with the Commission and incorporated herein by reference).

4.5 — Indenture governing the Company's 9.5% Senior Subordinated Notes due 2014, dated as of February 4, 2004, among the Company, certain U.S. subsidiaries of the Company, as guarantors, and SunTrust Bank, as Trustee (the "2004 Indenture") (included as Exhibit 4.6 to the Company's annual report on Form 10-K for the year ended December 28, 2003 (the "2003 10-K"), previously filed with the Commission and incorporated herein by reference); and First Supplemental Indenture related to the 2004 Indenture, dated as of January 10, 2005 (included as Exhibit 99.3 to the Company's current report on Form 8-K dated February 15, 2005, previously filed with the Commission and incorporated herein by reference).

10.1 — Salary Continuation Plan, dated May 7, 1982 (included as Exhibit 10.20 to the Company's registration statement on Form S-1, File No. 2-82188, previously filed with the Commission and incorporated herein by reference).*

10.2 — Form of Salary Continuation Agreement, dated as of October 1, 2002 (as used for Daniel T. Hendrix, Raymond S. Willoch and John R. Wells) (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 29, 2002 (the "2002 Third Quarter 10-Q"), previously filed with the Commission and incorporated herein by reference).*

10.3 — Salary Continuation Agreement, dated as of October 1, 2002, between the Company and Ray C. Anderson (included as Exhibit 10.3 to the 2002 Third Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Amendment thereto dated September 29, 2006 (included as Exhibit 99.1 to the Company's current report on Form 8-K dated September 29, 2006, previously filed with the Commission and incorporated herein by reference).*

10.4 — Interface, Inc. Omnibus Stock Incentive Plan (as amended and restated effective February 22, 2006) (included as Exhibit 99.1 to the Company's current report on Form 8-K dated May 18, 2006, previously filed with the Commission and incorporated herein by reference; and Forms of Restricted Stock Agreement, as used for directors, senior officers and other key employees/consultants (included as Exhibits 99.1, 99.2 and 99.3, respectively, to the Company's current report on Form 8-K dated January 10, 2005, previously filed with the Commission and incorporated herein by reference).

10.5 — Interface, Inc. Executive Bonus Plan, adopted on February 18, 2004 (included as Exhibit 99.1 to the Company's current report on Form 8-K dated December 15, 2004, previously filed with the Commission and incorporated herein by reference).*

10.6 — Description of Special Incentive Program for 2005-2006 (included as Exhibit 99.2 to the Company's current report on Form 8-K dated December 15, 2004, previously filed with the Commission and incorporated herein by reference).*

10.7 — Interface, Inc. Nonqualified Savings Plan (as amended and restated effective January 1, 2002) (included as Exhibit 10.4 to the 2001 10-K, previously filed with the Commission and incorporated herein by reference); First Amendment thereto, dated as of December 20, 2002 (included as Exhibit 10.2 to the 2003 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto, dated as of December 30, 2002 (included as Exhibit 10.3 to the 2003 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto, dated as of May 8, 2003 (included as Exhibit 10.6 to the 2003 10-K, previously

filed with the Commission and incorporated herein by reference); and Fourth Amendment thereto, dated as of December 31, 2003 (included as Exhibit 10.7 to the 2003 10-K, previously filed with the Commission and incorporated herein by reference).*

10.8	—	Interface, Inc. Nonqualified Savings Plan II, dated as of January 1, 2005 (included as Exhibit 4 to the Company's registration statement on Form S-8 dated November 29, 2004, previously filed with the Commission and incorporated herein by reference); and First Amendment thereto, dated as of December 28, 2005 (included as Exhibit 10.9 to the Company's annual report on Form 10-K for the year ended January 1, 2006 (the "2005 10-K"), previously filed with the Commission and incorporated herein by reference).*

10.9 — Sixth Amended and Restated Credit Agreement, dated as of June 30, 2006, among the Company (and certain direct and indirect subsidiaries), the lenders listed therein, Wachovia Bank, National Association, Bank of America, N.A. and General Electric Capital Corporation (included as Exhibit 99.1 to the Company's current report on Form 8-K dated June 30, 2006, previously filed with the Commission and incorporated herein by reference).

10.10 — Employment Agreement of Ray C. Anderson dated April 1, 1997 (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 1997 (the "1997 Second Quarter 10-Q"), previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended April 5, 1998 (the "1998 First Quarter 10-Q"), previously filed with the Commission and incorporated herein by reference); Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.20 to the Company's annual report on Form 10-K for the year ended January 1, 2000 (the "1999 10-K"), previously filed with the Commission and incorporated herein by reference); Third Amendment thereto dated May 7, 1999 (included as Exhibit 10.6 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference); Fourth Amendment thereto dated July 24, 2001 (included as Exhibit 10.4 to the 2001 Third Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Fifth Amendment thereto dated July 26, 2006 (included as Exhibit 99.1 to the Company's current report on Form 8-K dated July 26, 2006, previously filed with the Commission and incorporated herein by reference).*

10.11 — Change in Control Agreement of Ray C. Anderson dated April 1, 1997 (included as Exhibit 10.2 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.2 to the 1998 First Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.21 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference); Third Amendment thereto dated May 7, 1999 (included as Exhibit 10.7 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference); Fourth Amendment thereto dated July 24, 2001 (included as Exhibit 10.5 to the 2001 Third Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Fifth Amendment thereto dated July 26, 2006 (included as Exhibit 99.2 to the Company's current report on Form 8-K dated July 26, 2006, previously filed with the Commission and incorporated herein by reference).*

10.12 — UK Service Agreement between Interface Europe, Ltd. and Lindsey Kenneth Parnell dated March 13, 2007.*

10.13 — Overseas Service Agreement between Interface Europe, Ltd. and Lindsey Kenneth Parnell dated March 13, 2007.*

10.14 — Employment Agreement of Daniel T. Hendrix dated April 1, 1997 (included as Exhibit 10.7 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.7 to the 1998 First Quarter 10-Q,

previously filed with the Commission and incorporated herein by reference); Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.20 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference); and Third Amendment thereto dated January 31, 2003 (included as Exhibit 10.12 to the 2002 10-K previously filed with the Commission and incorporated herein by reference).*

10.15 — Change in Control Agreement of Daniel T. Hendrix dated April 1, 1997 (included as Exhibit 10.8 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.8 to the 1998 First Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.21 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference).*

10.16 — Employment Agreement of Raymond S. Willoch dated April 1, 1997 (included as Exhibit 10.11 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.11 to the 1998 First Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.20 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference); and Third Amendment thereto dated January 31, 2003 (included as Exhibit 10.14 to the 2002 10-K previously filed with the Commission and incorporated herein by reference).*

10.17 — Change in Control Agreement of Raymond S. Willoch dated April 1, 1997 (included as Exhibit 10.12 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.12 to the 1998 First Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.21 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference).*

10.18 — Employment Agreement of John R. Wells dated April 1, 1997 (included as Exhibit 10.23 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.23 to the 1998 First Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.20 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference); and Third Amendment thereto dated January 31, 2003 (included as Exhibit 10.4 to the 2003 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference).*

10.19 — Change in Control Agreement of John R. Wells dated April 1, 1997 (included as Exhibit 10.24 to the 1997 Second Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); Amendment thereto dated January 6, 1998 (included as Exhibit 10.24 to the 1998 First Quarter 10-Q, previously filed with the Commission and incorporated herein by reference); and Second Amendment thereto dated January 14, 1999 (the form of which is included as Exhibit 10.21 to the 1999 10-K, previously filed with the Commission and incorporated herein by reference).*

10.20 — Form of Second Amendment to Employment Agreement, dated January 14, 1999 (amending Exhibits 10.6, 10.8, 10.10, 10.12, 10.16 and 10.18 to the 1999 10-K and included as Exhibit 10.20 to such report, previously filed with the Commission and incorporated herein by reference).*

10.21 — Form of Second Amendment to Change in Control Agreement, dated January 14, 1999 (amending Exhibits 10.7, 10.9, 10.11, 10.13, 10.17 and 10.19 to the 1999 10-K and included as Exhibit 10.21 to such report, previously filed with the Commission and incorporated herein by reference).*

10.22 — Split Dollar Agreement, dated September 11, 2006, between the Company, Ray C. Anderson and Mary Anne Anderson Lanier, as Trustee of the Ray C. Anderson Family Trust (included as Exhibit 99.1 to the Company's current report on Form

		8-K dated September 11, 2006, previously filed with the Commission and incorporated herein by reference).*
10.23	—	Split Dollar Insurance Agreement, dated effective as of February 21, 1997, between the Company and Daniel T. Hendrix (included as Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended October 4, 1998, previously filed with the Commission and incorporated herein by reference).*
10.24	—	Employment Agreement of Christopher J. Richard dated July 30, 2003 (included as Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended September 28, 2003, previously filed with the Commission and incorporated by reference herein).*
10.25	—	Employment Agreement of Patrick C. Lynch dated October 6, 2005 (included as Exhibit 99.1 to the Company's current report on Form 8-K dated October 6, 2005, previously filed with the Commission and incorporated herein by reference).*
10.26	—	Change in Control Agreement of Patrick C. Lynch dated October 6, 2005 (included as Exhibit 99.2 to the Company's current report on Form 8-K dated October 6, 2005, previously filed with the Commission and incorporated herein by reference).*

10.27 — Form of Indemnity Agreement of Director (as used for directors of the Company) (included as Exhibit 99.1 to the Company's current report on Form 8-K dated November 29, 2005, previously filed with the Commission and incorporated herein by reference).*

10.28 — Form of Indemnity Agreement of Officer (as used for certain officers of the Company, including Daniel T. Hendrix, John R. Wells, Patrick C. Lynch, Raymond S. Willoch and Lindsey K. Parnell) (included as Exhibit 99.2 to the Company's current report on Form 8-K dated November 29, 2005, previously filed with the Commission and incorporated herein by reference).*

10.29 — Description of Special Incentive Program for 2007 (included as Exhibit 99.1 to the Company's current report on Form 8-K dated December 14, 2005, previously filed with the Commission and incorporated herein by reference).*

10.30 — Interface, Inc. Long-Term Care Insurance Plan and related Summary Plan Description (included as Exhibit 99.2 to the Company's current report on Form 8-K dated December 14, 2005, previously filed with the Commission and incorporated herein by reference).*

10.31 — Credit Agreement, executed on March 9, 2007, among Interfae Europe B.V. (and certain of its subsidiaries) and ABN AMRO Bank N.V. (included as Exhibit 99.1 to the Company's current report on Form 8-K dated March 7, 2007, previously filed with the Commission and incorporated herein by reference).

21 — Subsidiaries of the Company.

23 — Consent of BDO Seidman, LLP.

24 — Power of Attorney (see signature page of this Report)

31.1 — Certification of Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

31.2 — Certification of Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

32.1 — Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Executive Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

32.2 — Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Financial Officer with respect to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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* Management contract or compensatory plan or agreement required to be filed pursuant to Item 15(b) of this Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Interface, Inc.
Atlanta, Georgia

The audits referred to in our report dated March 9, 2007 relating to the consolidated financial statements of Interface, Inc., which is contained in Item 8 of this Form 10-K, included the audit of the Financial Statement Schedule II (Valuation and Qualifying Accounts and Reserves) set forth in the Form 10-K. This Financial Statement Schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the Financial Statement Schedule based upon our audits.

In our opinion such financial statement schedule presents fairly, in all material respects, the information set forth therein.

/s/ BDO SEIDMAN, LLP

Atlanta, Georgia
March 9, 2007

INTERFACE, INC. AND SUBSIDIARIES

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	BALANCE, AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES (A)	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS (DESCRIBE) (B)	BALANCE, AT END OF YEAR
			(in thousands)		
Allowance for Doubtful Accounts:					
Year ended:					
December 31, 2006	$ 6,192	$ 2,694	$ --	$ 1,456	$ 7,430
January 1, 2006	6,099	2,009	--	1,916	6,192
January 2, 2005	4,965	1,421	--	287	6,099

(A) Includes changes in foreign currency exchange rates.

(B) Write off of bad debt.

	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	BALANCE, AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES (A)	CHARGED TO OTHER ACCOUNTS (C)	DEDUCTIONS (DESCRIBE) (D)	BALANCE, AT END OF YEAR
			(in thousands)		
Restructuring Reserve:					
Year ended:					
December 31, 2006	$ 271	$ 3,260	$ 1,960	$ 1,304	$ 267
January 1, 2006	2,863	--	--	2,592	271
January 2, 2005	4,710	--	--	1,847	2,863

(A) Includes changes in foreign currency exchange rates.

(B) Includes a reallocation of reserves based on changes in the Company’s estimates.

(C) Reduction of asset carrying value.

(D) Cash payments.

	COLUMN A BALANCE, AT BEGINNING OF YEAR	COLUMN B CHARGE TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE AT END OF YEAR
			(in thousands)		
Reserves for Sales Returns and Allowances:					
Year ended:					
December 31, 2006	$ 2,713	$ 1,311	$ --	$ 1,815	$ 2,209
January 1, 2006	2,782	3,205	--	3,274	2,713
January 2, 2005	1,994	3,757	--	2,969	2,782

(A) Includes changes in foreign currency exchange rates.

(B) Represents credits issued and adjustments to reflect actual exposure.

	COLUMN A BALANCE, AT BEGINNING OF YEAR	COLUMN B CHARGE TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE AT END OF YEAR
			(in thousands)		
Warranty Reserves :					
Year ended					
December 31, 2006	$ 2,564	$ 428	$ --	$ 833	$ 2,159
January 1, 2006	2,409	1,445	--	1,290	2,564
January 2, 2005	2,885	1,357	--	1,833	2,409

(A) Includes changes in foreign currency exchange rates.

(B) Represents costs applied against reserve and adjustments to reflect actual exposure.

	COLUMN A BALANCE, AT BEGINNING OF YEAR	COLUMN B CHARGE TO COSTS AND EXPENSES (A)	COLUMN C CHARGED TO OTHER ACCOUNTS	COLUMN D DEDUCTIONS (DESCRIBE) (B)	COLUMN E BALANCE AT END OF YEAR
			(in thousands)		
Inventory Reserves :					
Year ended:					
December 31, 2006	$ 12,011	$ 1,622	$ --	$ 1,687	$ 11,946

January 1, 2006	10,514	4,193	--	2,696	12,011
January 2, 2005	6,573	6,087	(743)	2,889	10,514

(A) Includes changes in foreign currency exchange rates.

(B) Represents costs applied against reserve and adjustments to reflect actual exposure.

(All other Schedules for which provision is made in the applicable accounting requirements of the Securities and Exchange Commission are omitted because they are either not applicable or the required information is shown in the Company's Consolidated Financial Statements or the Notes thereto.)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 13, 2007		**INTERFACE, INC.**
	By:	/s/ DANIEL T. HENDRIX Daniel T. Hendrix *President and Chief Executive Officer*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Daniel T. Hendrix as attorney-in-fact, with power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Capacity**	**Date**
/s/ RAY C. ANDERSON Ray C. Anderson	Chairman of the Board	March 13, 2007
/s/ DANIEL T. HENDRIX Daniel T. Hendrix	President, Chief Executive Officer and Director (Principal Executive Officer)	March 13, 2007
/s/ PATRICK C. LYNCH Patrick C. Lynch	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 13, 2007
/s/ EDWARD C. CALLAWAY Edward C. Callaway	Director	March 13, 2007
/s/ DIANNE DILLON-RIDGLEY Dianne Dillon-Ridgley	Director	March 13, 2007

/s/ CARL I. GABLE Carl I. Gable	Director	March 13, 2007
/s/ JUNE M. HENTON June M. Henton	Director	March 13, 2007
/s/ CHRISTOPHER G. KENNEDY Christopher G. Kennedy	Director	March 13, 2007
/s/ K. DAVID KOHLER K. David Kohler	Director	March 13, 2007
/s/ JAMES B. MILLER, JR. James B. Miller, Jr.	Director	March 13, 2007
/s/ THOMAS R. OLIVER Thomas R. Oliver	Director	March 13, 2007
/s/ HAROLD M. PAISNER Harold M. Paisner	Director	March 13, 2007

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EXHIBIT INDEX

Exhibit Number	
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Explanation of Responses: